FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1983

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

MARCH 3, 1982 } NATIONAL SECURITY
MARCH 18, 1982 }
MARCH 8, 1982—AGRICULTURE
MARCH 12, 1982—STATE AND LOCAL GOVERNMENT

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NATIONAL SECURITY

WEDNESDAY, MARCH 3, 1982

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici, chairman of the committee, presiding.

Present: Senators Domenici, Boschwitz, Hatch, Tower, Grassley, Kasten, Quayle, Hollings, Chiles, Hart, Metzenbaum, and Exon.

Staff present: Stephen Bell, staff director; Robert Helm, senior analyst for national security, and international affairs; Lizabeth Tankersley, minority staff director; and Robert D. Sneed, analyst for national security and international affairs.

Chairman **DOMENICI**. The hearing will come to order.

Members of the committee, I have an opening statement that I have spent some time on; I want to read it today. I will defer on any of my questions when it comes my turn, because I want to attempt from my standpoint to try to put this defense issue into perspective.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Mr. Secretary and General Jones, you are here today to discuss with the committee what may be the single most important issue facing the Congress—what level of spending priority to devote to the national defense activities of this country.

AMBITIOUS DEFENSE PROGRAM PROPOSED

The administration has proposed a very ambitious defense 5-year program which reflects the clear objective of redressing more than a decade of underfunding for national security. This committee has, for the past 3 years, assailed this chronic defense underfunding, especially in areas of readiness and sustainability, and it was only in the fiscal year 1980 budget and the debate that ensued that Senator Hollings and others led the movement in the Senate to achieve the first real increase in defense spending—5 percent real growth—a level cited by Senator Hollings, Senator Tower and other defense authorities in the Senate, and also by General Jones at that time, as the minimum level of defense spending needed to maintain essential readiness and to begin modernization.

Since that time, our President has acted to back up his intentions to rearm America. He has not, to his credit, shied away from that objective. The President's additions to the Carter fiscal year

1981 and 1982 defense budgets concentrated upon immediately redressing serious readiness and sustainability deficiencies in our defense posture, and also upon putting in place a procurement framework which could support a major force modernization and enhancement program.

The fiscal year 1983 defense request capitalizes on the groundwork laid by the previous 2 years by sustaining readiness funding and beginning a major procurement modernization initiative. The 1983 request can and must, in my mind, be characterized as the second phase of the plan to redress a deficiency.

I must say to the members of the committee quite candidly that in its broad outlines, this 1983 defense request does exactly what this committee has consistently been saying we had to do. We can all debate certain specifics of the request, but it does emphasize readiness, modernization, and demonstrates an effort to implement management efficiencies and attack waste. I cannot quarrel with this approach; in fact, it is what we have been urging.

I must, however, confront one serious problem. Personally, I have been unable to develop a budget plan which can accommodate the administration's defense request and still accomplish the principal economic goal of reducing the Federal deficit substantially.

FISCAL DEMANDS CANNOT BE SEPARATED FROM NATIONAL SECURITY

On this point, I cannot separate fiscal demands from national security. It is imperative that Congress produce a budget plan which steadily reduces deficits. This requires an alternative to the administration's proposal.

Let me share some thoughts. First, defense is not responsible for the economic situation we are in today. To the contrary, defense has consistently taken its cuts in previous years while domestic social programs grew to such an extent that many would assume they are out of control.

The defense budget experienced negative growth in 9 of the 12 years preceding fiscal year 1980. The size of the present request underscores the fact that we are face to face with the legacy of underfunding of defense in the past. The propensity to avoid modernization of systems and shortchange readiness has caught up with us. There can be no doubt about that.

Second, modernization reflects the bulk of the defense costs which are at issue so far as this committee is concerned. Modernization is certainly required. Our strategic forces were designed to cope with a totally different type of threat. The Army is facing block obsolescence in most of its weapons systems. The Navy bears the brunt of our new expanding global security requirements.

Concern about the overcomplexity of new systems, while justified, is not really relevant to our concerns today, and I am not interested in piling on the DOD on that score. The systems being considered today may indeed represent a counterproductive trend toward overcomplexity, but they are what we have to work with and they are the cumulative product of successive years of review and funding by Congress. Many are finally in place after years of effort to get them there.

Third, the nature of the defense budget insures that the 1983 outlay savings will not be the focus of this committee's consideration. Fully 31 percent of the 1983 DOD outlays are the result of prior year budget decisions. If one considers that another 54 percent of the outlays represents personnel and O. & M. costs, it appears that 85 percent of the DOD outlays is composed of items with which Congress either cannot or would have a great deal of difficulty tampering with.

MUST FOCUS ON OUTYEAR IMPLICATIONS

Our focus, in the context of controlling deficits in the future, must be the outyear implications of the budget authority proposed to support new weapons procurement. The outyear outlay impact is greatest in this area of the DOD budget.

Even if the entire $89.5 billion in fiscal year 1983 budget authority proposed for new weapons was totally rejected, it would yield only $11 billion in outlay savings in 1983. But, by the same token, that fiscal year 1983 budget authority will yield 13 percent of the 1984 outlays and 9 percent of the fiscal year 1985 outlays. By fiscal year 1987, CBO calculates that fully 30 percent of DOD outlays will be attributable to prior-year procurement alone. When other DOD accounts are considered, almost 41 percent of the fiscal year 1987 outlays will be due to pipeline spendout of prior budget authority.

Fifth, citing historical defense spending rates to support the contention that the United States has spent more on defense in prior years as a percent of GNP may illustrate that defense has been underfunded recently, but it does not alter the present economic/political situation in which we find ourselves.

ECONOMIC PERSPECTIVE MUST BE CONSIDERED

The hemorrhage of budget deficit must be alleviated. The economy must heal and recover. The international situation demands that we not shirk our commitment to national defense, but we must rearm with an economy that can grow. The economic perspective must be considered. I have spent some time with the Secretary and tried to stress that point.

Everyone must realize that reducing the defense request is not an action taken lightly. There are adverse implications which economic and political realities leave us little option but to accept.

Given the need to maintain readiness and personnel funding, two basic options exist for achieving out-year savings: Cancel or stretch out weapon procurement and force modernization, and cut existing force structure, which means closing bases and the like.

Reduced funding would permit no across-the-board modernization of our strategic and conventional forces. Tradeoffs will have to occur—strategic versus conventional, maritime versus ground, NATO versus rapid deployment. It is probable that many of the management and procurement efficiencies proposed in the budget which require front-end funding will be casualties, as the DOD adapts to lower funding levels.

We have been urging our allies to increase their share of the defense burden. They have demurred, citing severe economic conditions. Using our own economic situation as a reason to reduce the fiscal year 1983 defense request will no doubt be seized upon by our allies as a further reason to do likewise.

REDUCING DEFENSE BUDGET SHOULD NOT BE TAKEN LIGHTLY

Now, I mention these points because I want the members of the committee to fully appreciate that reducing this defense budget should not be taken lightly. I do not relish the idea. We have been the vanguard in calling for defense upgrading.

There are many reasons to support the defense request, but the reason it cannot be accommodated in total is the most compelling—the deficits. The fact that our colleague, Senator Hollings, has proposed the most drastic defense cut—a total freeze on defense growth in 1983—illustrates the severity of the situation.

Mr. Secretary, you may be aware that I have proposed an alternative, keeping spending at 5 percent real growth annually. This is not a small amount, 3 years ago, it was the highest rate of defense growth being discussed in Congress, but it is significantly below the administration's request for 13 percent real growth in defense spending authority. It is certainly not the ideal level of national security spending, but little in this budget will be ideal until we reverse our present economic situation.

What we have to confront has been categorized by a number who have appeared here as nothing but bad choices to choose from. Mr. Secretary, I want you to know that most of us feel that we must right the economy. Reducing deficits seems to this committee an imperative and a precursor to that righting, because without that, we cannot get interest rates down and keep them down.

With that in mind, we hope to complete these hearings around 12:30. The attendance will be good, and we do hope that you will help us today by answering our questions as forthrightly as you have in the past.

Now, I will yield to Senator Hollings.

OPENING STATEMENT OF SENATOR HOLLINGS

Senator HOLLINGS. Thank you, Mr. Chairman.

I was not going to make a statement; I do not have a prepared one. But the chairman has mentioned the amendment of a couple of years ago that he and I, over the objection of the Pentagon, over the objection of President Carter, over the objection of the then chairman of the Budget Committee, Senator Muskie, and over the objection of the then chairman of the Armed Services Committee, Senator Stennis—were successful in having passed by the Senate. Our amendment was for 5 percent growth in defense—and 55 Senators voted for it.

I am very keenly aware of that, and obviously keenly aware of the freeze proposal for defense that I have made, so let me elaborate very briefly on the proposal. I will be very brief, Rudy. I was not going to say anything, but I have got to bring this to mind to really make me limit my questions.

THREAT IS VERY REAL

Mr. Chairman, I am fully aware of defense budgets. I was listening to defense budget witnesses as a member of the Hoover Commission 25 years ago in 1954 and 1955 when General Trudeau was head of the DIA.

I have just been briefed again, 25 years later, by the Defense Intelligence Agency, and the threat is very, very real; I would not minimize it at all. I am not trying to infer that I have heard it before; it has worsened, and I am as concerned as you are, so I am not taking lightly anything you say.

The question is how do we respond. We know the need is there. We have been trying to play catch-up ball for 10 years with the presence of the so-called détente, or as my friend, Senator Magnuson, the chairman of Appropriations, used to call it, "Dante." Well, that really was hell for 10 years, and that is why we were fighting for that 5 percent real growth add-on.

So how do you respond? You cannot do it all in 1 year, and you cannot do it, in my opinion, as ambitiously as we would like this year because of these budget deficits. Looking very realistically, with some political sense, at the chances of reducing the deficits, I have come up with a freeze in budget authority for 1983 that still provides some 12 billion more in outlays in 1983 that provides for a general shared sacrifice between entitlements, tax spending and defense, and gives us a balanced budget in 1985.

My 1982 figure for defense budget authority is 214.4, and the outlay amount is 190.1. In 1983, at the freeze, I am at 214.4 in budget authority and 202.3 in outlays. That plan will be described in detail later; we have got a logjam over at the CBO. Every Senator has got an alternative budget plan. The authorizing committees are trying to ask for expert studies on their proposals that they must have in here by next Monday, so I am waiting for my detailed numbers. As soon as I get those figures, I will have a complete list of how my defense budget will work in.

REAL GROWTH

But it works in a very orderly way with the 5 percent real growth per year figure because, if you stretch out real growth over 1981, 1982, and 1983—using my freeze figure in 1983—you have a 17 percent real growth in total defense spending, or an average of about 5 percent real growth per year.

It provides, for 1983 over 1980, over 12 percent real growth per year in procurement because the actual overall real growth is nearly 30 percent. Annually then, procurement is more than the 5 percent amount. So, I have not had to yield. I readily admit I would have yielded some there, but I have not had to yield on the original thrust of the Domenici-Hollings amendment back some 3 years ago.

We have been working very, very diligently in support of the Pentagon and our Armed Forces. I think that it should be emphasized that we lost the consensus somewhat with the debate that ensued between yourself and the Director of OMB back in August.

I keep very close and very atuned to all defense matters as best I can; I read and I study and I listen, and when I saw you two debating, I could see the consensus diminish in large measure. In going over to the White House, in a sense you seem to prevail. But when the President came in with the desperate results from last year's tax cut with these high deficits—and many Governors and labor unions and many segments of private business has had to institute a freeze—and the President demands nearly a $50 billion increase in budget authority and a $31 billion increase in outlays for 1983—the concensus erodes. In light of the fact that the DOD has $33.8 billion in unobligated balances, in light of the fact that by getting that $51 billion, you estimate on page 9-9 of the Federal budget document that the $33.8 grows to a $43.1 billion figure in $83 billion in light of the fact that with the freeze that I have projected you would still have over $20 billion in unobligated balances, in light of the fact that I had a desperate time when Jim Lynn was the Director of the OMB defending $10 billion in unobligated balances before this Budget Committee—we have not done the Pentagon badly.

On the contrary, we have given you breathing room to deliberately award these contracts in a reasonable manner hoping that you will not be coming up, as you did last week before Senator Goldwater at Armed Services, and saying that for the AH-64, we need 100 less planes; we cannot afford them. Oh—but by the way—in order to afford the 100 less, we have got to spend $1 billion more. So, we have got that particular problem with unconscionable cost growth still with us.

FIGURES BEING USED NOT THE SAME

Only one other point and then I would yield, and that is back to the budget itself and Dr. Rivlin's presentation on yesterday. You only have to look at page 170 of the CBO's analysis of the Reagan defense budget and see the inflation rates that CBO assumes and the similar rates assumed by DOD. There is a 1- to 2-percent difference every year that translates, on page 177 of the CBO document, to a $61 billion difference between the President's budget and the CBO estimate for 1983-87.

In 1985, where the President projects some $70 billion in deficits, CBO is projecting double that amount at $140 billion. One of the biggest contributors to the problem is that you are still using the overly optimistic defense inflations. Finally, we do not have the procurement annex before us so that we can even decide what the President's detailed program is.

You don't have to impress me with the need for defense; I am fully impressed. But we lose our support here in the Congress when we get into a totally incredible position of just demanding more, and then being given more and more briefings that the country cannot see so the public never understands the need.

On the contrary, given the kinds of performances like the AH-64 helicopter performance and many others that are going to come forth, they are perceived by the American public as waste, fraud and abuse. The public is out of jobs and they are willing to make the sacrifice and they want that strong defense, and they see no rhyme or reason why we should just move forward in a continued posture of, as they see it, waste, fraud and abuse, in defense and act in total unawareness of the economic condition of this particular country.

Thank you, Mr. Chairman.

Chairman DOMENICI. Mr. Secretary?

STATEMENT OF HON. CASPAR W. WEINBERGER, SECRETARY OF DEFENSE, ACCOMPANIED BY GEN. DAVID JONES, CHAIRMAN, JOINT CHIEFS OF STAFF, AND JACK BORSTING, COMPTROLLER, DEPARTMENT OF DEFENSE

Secretary WEINBERGER. Mr. Chairman and members of the committee, we greatly appreciate the opportunity to be before you and to have the benefit of these very instructive and helpful comments.

I have a prepared statement, Mr. Chairman, which I am not going to read. I would assume it can be included in the record at this point. I would like to make a few comments based on the statements that have been made this morning so that we can perhaps have before us a proper perspective in which to view this budget as you enter into the very important deliberations that you will be carrying on for a large part of the session.

Chairman DOMENICI. Your statement will be made a part of the record.[1]

Secretary WEINBERGER. Thank you, sir.

Mr. Chairman, the defense budget has to be a function of the threat that we face. If we try to construct the defense budget on the grounds of whether it is fair to food stamps or fair to welfare or fair to highways or transportation, I do not think we are going to be doing our own people or our allies or indeed the world any kind of proper service.

CONSTRUCT BUDGET ON THREAT FACED IN DEFENSE

The threat that we face in defense has to be the basis on which we construct our budget. We cannot, I think, say that that threat is disappearing or has weakened since the determination was expressed last year by the Congress to make a strong start on the recovery of our defensive strength. That threat is growing, if anything.

We know that in 1981 alone, the Soviets built 200 ICBM's; 2,000 tanks; 1,350 aircraft, fighters and fighter bombers, and 4,500 armored fighting vehicles. In that same period, we were starting to recover and we managed to field one-third as many ICBM's, one-fifth as many tanks, one-fifth as many planes, and one-seventh as many armored personnel carriers.

In other words, as strong as we made our start last year, we did not start to make appreciable progress in closing the gap that has opened through years of neglect on our part and years of heavy over-investment by the Soviets in comparison with ourselves.

The Soviet military budget only has to spend about 15 cents out of each dollar on personnel costs. We spend, and quite rightly, about 50 cents out of each dollar because we have a totally different standard and quality of life that we insist on and that we would not want to change. Indeed, we argued long and hard last year, and the Congress responded magnificently, to the problem that the salaries that we pay our men in uniform has been shamefully low for far too long a period. That has been corrected.

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[1] See p. 12.

But it does mean that we have a very large amount that we have to pay—just about half our budget—in personnel costs, and that does not add any fire power. We have to pay a very large amount because we have had inflation, and that adds to the cost of existing programs without adding a single bullet.

So, there are very large items that have to be funded before we get to the point of increasing our defense strength. We see the nature of the threat that we face growing as rapidly as it is in all ways and in all areas. I have listed a few, but there are also submarines, more tactical aircraft, aircraft carriers, more ground divisions, and the ground divisions they have are being brought up to a higher degree of readiness.

All of these things are happening every day of the year. They have been doing them for 21 years, and we have not. We started with enormous military superiority in the fifties. That has been eroded, and with it has been a diminishment in our ability to deter attack.

MUST HAVE RETALIATORY CAPABILITY

We know that we will not make a first strike, but the simple fact of the matter is that in order to deter a first strike from them, we have to have a retaliatory capability. We will lose our ability to deter attack if we do not keep adding to our strength.

When you have not added to that strength and when you have had either a negative growth or you have lurched along 1 year up and 2 years down, as we did for far too many years, a number of things happen.

You lose momentum. Bear in mind, as perhaps few of the groups in the Congress do bear in mind, the fact that it takes a long time to regain defensive strength. A 12-month period is a very narrow, artificial set of boundary lines within which to examine the required effort of regaining defensive strength when it has been neglected for as long as we have done, and neglected in the face of a very large and rapidly growing threat.

It takes a long time of sustained and courageous and continued effort to rebuild our defensive strength. Summer soldiers and 1-year soldiers are not going to be enough for us to complete the task that we have in the face of this threat. This threat is a very real one and which, as you know and I know and most of us who have seen the briefings know, is not only not diminishing, but is increasing in a way that can only be described as exceptionally alarming.

SOVIETS ADDING TO OFFENSIVE STRENGTH

The Soviets are not adding to their defensive strength; they are adding to their offensive strength. The Soviets do not need an aircraft carrier to defend the Soviet Union, but they are getting them. They do not need the increased number of divisions to defend the Soviet Union, but they are getting them.

They do not need all the additional fighter and bomber aircraft and all the armored fighting vehicles and all the ICBM's that are now in the fifth generation, where ours are in the third, to defend the Soviet Union.

There is an increasing body of evidence, Mr. Chairman, that holds to the feeling that the Soviets believe they can win a nuclear war. Part of that is based on the fact that they not only have very accurate, very destructive missiles of the kind that can destroy hard targets, but the fact that they have continually redesigned these missiles, to strengthen them, to add to their accuracy, and to add to the number of warheads that can be released from each one.

They have done it all over the years without any pause, without any hesitation, and without any change. They have done it now for 21 years. It allows them to draw on a substantial amount of momentum and to take delivery of things that they ordered in the seventies when we did not.

So, we have to look at something besides the budgets of other departments and some presumed degree of shared misery or shared reductions, or something of that kind, as the basis for determining what is a proper defense program.

We know, and the Congress accepted completely the idea last year, that we have to strengthen all three parts of our Triad of strategic programs at once. That is an expensive proposition. It will run about 15 percent of the total defense budget over the next few years. That, I think, is a proper proportion for it to have.

That is a very expensive proposition, and it is very expensive to have to start it and have to continue it all at one time. So, that is underway.

PRISONER OF PAST DECISIONS

I have mentioned all the problems that we have with inflation and personnel costs. Another reason why we cannot change significantly our defense posture is the degree to which we are a prisoner of past decisions.

There has been a lot written about the tank; there has been a lot written about the infantry fighting vehicle. These have been, respectively, 17–20 years in development. That is much too long; it is indefensible, but there it is. We need a tank; we need a fighting vehicle. They have been redesigned three or four times; that has contributed to the delay. But now they are coming off the production lines and we are paying to get them because we need them.

We could stop them; we could say we do not like the tank; we do not like the infantry fighting vehicle; we will start over. That would delay us another 5 years before we had anything online. So, we do have to continue programs in which there is a huge cost.

Some of them we have stopped. We stopped the MPS system for deploying the MX missile, saving about $40 billion. We stopped the proposal for a new troop carrier and decided to rely on the development of an old one that had been tested and had its problems worked out. Those things save money, and they are major programs that have been stopped.

The simple fact is that there is no easy, cheap way to regain defensive strength, particularly when you have to do it in a hurry, not knowing how much time you might have.

We have a proposal before you to authorize two aircraft carriers. We know we will need them. If we had funded them in the usual way by trying to keep the budget down and not really giving you an honest presentation of the cost, we would have requested one this year and one in 3 or 4 years. That would have perhaps given the illusion that we were saving some money or that we were not spending as much as we needed to.

It would be a complete illusion because by doing the two at once and asking for a $6.3 billion authorization, we can save $1 billion over the course of the delivery and the production of those two carriers. By building them together we save $750 million in construction costs, and by getting them 22 months early, we will save the inflation that always attaches to things that are delayed.

REASON FOR AUTHORIZING MORE IS REAL

So, you do have, I think, a real reason for authorizing more, and that will bring a savings in the long run. The suggestion has been made that we save money by stretching out, or we can help some way by stretching out. This delays the time when we get the needed weapons; it makes them far more costly; and it sends signals around the world that America does not have the will or the resolution to rebuild.

It is not that we do not have the fiscal resources; we do have the fiscal resources to do it. It is a question of allocating them, and that is essentially how we measure our resolve and our willingness to do it.

Nobody likes to spend money on defense. As I have said many times, if we do our job properly we will never have to use any of the things that we are asking you to buy. But the simple fact of the matter is that, unless we do acquire this strength, we leave ourselves very vulnerable to a growing threat. We leave ourselves in a position where we cannot deter aggression, because aggression will appear to be feasible to an enemy that has not hesitated to use its strength in a large number of countries around the world, either directly as in Afghanistan, indirectly through intimidation as in Poland, or through various client factions in Angola, Ethiopia, Yemen, Nicaragua, and Cuba.

So, we have, I think, to look again at the need. Why is it that we are asking for these amounts? It is not because we have an insatiable appetite at the Pentagon that has to be filled. It is because we have a very real threat that we cannot ignore unless we do it at our peril.

HOLLINGS PROPOSAL WOULD MEAN LOSS OF STRENGTH

Senator Hollings has talked about a proposal of freezing expenditures, comparing it with the time when he took the lead in a very commendable fashion in adding 5 percent real growth to the defense expenditures of the country at a time when we were finally realizing the effects of years of neglect.

I do not know if Senator Hollings realizes it, but the freeze that he is talking about would bring us to a level far below the Carter proposal for the years 1983, 1984, and 1985—proposals that we all felt were totally inadequate and would not accomplish the job that we have to do.

Just in 1983, Mr. Carter was talking about $205 billion in outlays; Senator Hollings' proposal would take us to 196. That would mean not only a significant loss of strength in every category; it would mean delays in reacquiring our strength. It would mean the things that we know now that we have to have will be infinitely more costly over the period of acquisition. It would send signals around the world that would be most encouraging to the Soviets and would prove to them that we were the same old America, doing business at the same old vacillation stand, unwilling to make the sacrifices necessary for more than a 12-month period. Consequently, we are neither a reliable ally nor a foe to be feared. These, I think, would be the worst kind of signals to send around the world.

If we did not know the nature of this threat and if we did not have the kinds of knowledge that we have as to the Soviet intention, as evidenced by their willingness to make this kind of a military investment in the face of a miserable economy and a quality of life that none of us would tolerate for 10 minutes, then perhaps we could talk about putting the defense budget on a par with some of the other departments of the government.

But there is no relevance to what the Soviets are doing with respect to our budgets for food stamps or highways or transportation or welfare, or any of the other objectives of the Government. Those are important objectives and they cannot be lost sight of, but the Soviets, budget against needs that they perceive.

The Defense Department has to budget against needs that we know are there and threats that are facing the country on an increasing scale. To budget for defense on the basis of some perceived fairness to other departments is simply to ignore the nature of the threat.

A lot has been said from time to time about the effect of all of this on the economy and that we do have a serious economic problem and we have a series of deficits that we have to do something about. I would not for a moment advocate spending for defense for any purpose other than to acquire the strength that we must acquire.

DEFENSE SPENDING GENERATES REVENUES

But you cannot ignore the fact that defense spending is quite different than other kinds of Government spending. Defense spending generates revenues. Defense spending does not add, dollar for dollar, to the deficit. It adds about 46 cents to the deficit.

So, if you cut defense spending in ways that would shatter our ability to rearm in time and regain the strategic strength that we need in time, you would not be reducing the deficit. You would not be inducing interest rates to come down. You would be destroying additional employment. You would be destroying the opportunity for additional investment.

Again, I emphasize this is not a reason for defense spending; it is the effect of defense spending. Defense spending generates revenues; it does not add to the deficit as significantly as other kinds of spending which add dollar for dollar to the deficit. Finally, it has the effect of encouraging the broadening and strengthening of the industrial base, which can be good for a number of other things.

It is not inflationary. We have the testimony of Ms. Rivlin just 2 days ago to the effect that it is not only not inflationary, but that the economy, with the extra room that is in several sectors of the economy, is not in any sense in any danger of either not being able to respond or having any kind of inflationary aspects to it. That is testimony that she gave on February 4 to the House Armed Services Committee which we can put in the record if you wish.

So, for all of these reasons, Mr. Chairman and members of the committee, I would urge that we do what we can afford to do; more than that, we do what will not harm the economy; that is, acquire the defensive strength that we need in time.

None of us knows how much time we will have. When I say the threat is increasing and is very real, I am most certainly not trying to support this budget on the grounds of anything other than the facts as we see them. The facts as we see them can only be described as alarming and can only be described as requiring immediate action.

I think that we have to bear in mind that the best social program and the only social program of any real and proven and permanent value that the Government can propose is a social program that preserves the safety and freedom and peace of its citizens. That is what we think is essential. The only way we can really do that is to reacquire the strength we need in time, because we will never know if what we have done is not enough until it may be too late.

Thank you, sir.

Chairman DOMENICI. Thank you, Mr. Secretary.

PREPARED STATEMENT OF HON. CASPAR W. WEINBERGER, SECRETARY OF DEFENSE

Mr. Chairman, members of the committee, fifteen months ago the American people gave Ronald Reagan the mandate to lead our Nation. That mandate emphasized the immediate need to strengthen America. It is the President's responsibility, while working ceaselessly for peace, to ensure that the safety of the American people cannot successfully be threatened by anyone. President Reagan has kept his pledge to make this responsibility his first priority, and we are well launched on this gigantic task.

My primary statutory responsibility is to advise the President and the Congress of the things we must do to improve our national defense, and why we must do them. Serious deficiencies in our military forces have compelled us to develop new programs and to ask you for an increase in the Defense Budget. The major weaknesses in our defenses that have resulted from over a decade of neglect must be corrected. At the same time we must look at the decade to come. With your cooperation we will construct a defense that can substantially reduce the serious dangers our nation now faces.

In these opening remarks, I shall address three fundamental requirements of our Defense effort:

First, I want to tell you briefly about the changes in Defense policy that I have instituted.

Second, we have to address the level of Defense spending that our security requires and how we apportion these resources among the many competing priorities.

Third, I want to inform you about our efforts to obtain the very best value for every Defense dollar spent—through management improvements, savings, and by eliminating waste.

DEFENSE POLICY

First, on our Defense policy: Policy relates means to ends; it endows all our efforts with a coherence of purpose and a sense of direction.

Just as the level of resources that we devote to Defense has become inadequate, so has our intellectual approach been overtaken by events. Indeed, our former Defense policy has not only become obsolete because of new threats to our security, but it has also been discredited by its failure to recognize and cope with the deterioration in the global military situation. In fact, obsolete strategic concepts have stood in the way of necessary reforms. Hence, we have to break with past thinking and develop new policy and concepts.

But let me add a cautionary note there. Even though it is essential that we reform our Defense policy, this reform cannot be a substitute for a vastly increased Defense effort. The adoption of new ideas and thinking is sometimes presented as an alternative to sustained growth in the Defense budget. It is not. Part of the needed reform in strategic thinking is precisely the new realization that we must devote more resources to Defense.

MILITARY FORCES MUST BE PREPARED

In stressing the importance of change, I do not wish to belittle the substantial continuities in our policy. The United States remains committed to a defensive use of military strength; our objective is to deter aggression or to respond to it should deterrence fail, not to initiate warfare. This stance has been fundamental to US national strategy for a long time. But what is new in our Defense policy is that we now realistically face the implications of this defensive stance. Since the United States will not strike first, our military forces must be prepared to react after the enemy has seized the first initiative, and to react so strongly that our counterattacks will inflict unacceptably high cost on the enemy, and thus deter their initial strike.

Three tasks, I decided, had to be undertaken at once with a high sense of urgency. First, we needed to make more realistic the manner in which our forces respond to warning. Second, we had to increase substantially programs to improve the steady state of readiness of our forces. Third, we had to enhance our preparations for military mobilization (the arrangements to mobilize, assemble, and deploy our forces)—and we need to repair the national capacity to expand Defense production rapidly during a crisis.

Our forces will, of course, be better able to cope with an armed attack if we alert them in response to warning and bring them to a higher state of readiness. Indeed, major aspects of our planning—such as the NATO reinforcement plan—are based precisely on the assumption that we can exploit warning of an enemy attack. To carry out a timely response to warning, however, two conditions must be met: We must not only receive warning, but also take the decision to respond. The first task has long been recognized; it calls for strong intelligence capabilities. We have taken steps to improve these capabilities. it is the second task that has been neglected. We cannot assume that the enemy will necessarily do us the favor of furnishing warning that is unambiguous. Military history reminds us that we ought to expect a massive and skillful effort at deception. It is sobering to recall how often extensive intelligence warnings failed to trigger the decision actually to prepare against attack.

Our forces must be prepared to respond to warning indicators that are highly ambiguous. Military planning for such a response is a measure we can take quickly and—an added attraction—at a very small budgetary cost. I have initiated a special effort in NATO to advance the planning for ambiguous warning.

IMPROVED READINESS AND SUSTAINABILITY ARE VITAL

Yet, while the planning is essentially cost free, the necessary backup is not. The most timely and energetic response to warning will not help us much unless our military forces are continuously maintained at a high state of readiness. The prolonged stringency in our Defense budget had led to an underfunding of the very things that determine the readiness of our Armed Force—adequate manning and training, maintenance, supplies of spare parts, fuel, and ammunition. The efforts for improved readiness and sustainability, thus, are necessary to enable us to respond to an attack, or to respond to an ambiguous threat of attack. I am stressing this point so much, Mr. Chairman, to convey to this Committee the fact that improved readiness and sustainability are vital.

As Secretary of Defense, I cannot confine my attention to the long-term recovery of our military strength—important as the sustained effort to build up our forces is, and as long as it takes to reacquire the relative strength we once had. I am responsible to the President and to the Nation for our security here and now, for a crisis that might come tomorrow. Improvements in readiness—apart from being essential for a strategy that is defensive—have both the advantage and the imperative that they be realized soon. This need for quick improvement also inspired some of our decisions on the acquisition and reactivation of weapon systems. For example, the reactivated *Iowa*-class battleships, equipped with modern cruise missiles and electronics, and the deployment of cruise missiles on attack submarines, are quick ways to get more naval power to sea, at far less cost than building new ships of comparable power.

Preparation for large-scale military mobilization must complement our improved readiness and our preparations to respond to warning. Our existing military assets—personnel, arms and supplies—may have to be assembled and deployed rapidly to the area of conflict. What is needed here are exercises and up-to-date planning—low-cost measures that can go a long way to strengthen the deterrent effect of our forces.

Distinct from these preparations for military mobilization are the efforts I initiated to repair our capacity rapidly to expand Defense production. Our historic experience suggests that a crisis threatening our national security is likely to lead to a decision massively to expand our Defense effort. For example, upon the outbreak of the Korean War, Congress decided on a threefold increase in our Defense Budget. But we would be complacent to assume that we could readily call on American industry today to accomplish comparable feats in expanding Defense production.

MULTIYEAR PROCUREMENT

The improvements in the acquisition process that we instituted last year, in particular the multi-year procurement, will help strengthen our Defense industry. We must induce Defense contractors and subcontractors to invest in production facilities, otherwise we will not benefit from the deterrent effort of our industrial potential. Hence, we should not look at Defense contracting in one-year slices. To get the best value, both in terms of program cost and surge capability, we need steady acquisition programs.

Another change in Defense policy is the increased recognition that our conventional forces must be designed for a wider range of contingencies. It is my aim to direct the improvement of our forces so as to create a better balance in meeting the different threats. For many years, it has been U.S. policy to let the investment and planning for our conventional forces be determined primarily by the requirement for fighting a war centered in Europe.

Without any way weakening our resolve to retain our strength for that purpose, we must recognize that in recent years the Soviet Union has been greatly increasing its ability to exploit political instability, and to project military power into other vital areas, such as the Persian Gulf and the Caribbean.

For the region of the Persian Gulf, in particular, our strategy is based on the concept that the prospect of combat with U.S. forces, plus those of other countries with a far greater economic stake than we in preserving access to the oilfields, coupled with the prospect that we might carry the war to other arenas, is the most effective deterrent to Soviet aggression. This strategy, thus, has two dimensions. First, we must have a capability rapidly to deploy enough force to hold key positions, and we must be able to interdict and blunt a Soviet attack. Hence, we will propose to you improvements in the Rapid Deployment Force and in related mobility. Second, this strategy recognizes that we should have options for fighting on other fronts. Our growing maritime capabilities will serve these options.

Third, we must recognize that without the complementary development of allied and friendly forces and facilities, we could deal with the new Soviet threats, if at all, only at much greater cost. Our security assistance to many of these countries is much smaller today than in the past; yet it is more important because U.S. interests are threatened now in more places. The President, accordingly, has sought to strengthen our security assistance to allied and friendly nations. Such assistance will enhance both the complementary roles of U.S. and friendly forces, and the availability of overseas facilities. Some of the essential forces and facilities are owned by our allies and friends who cannot fund the desired force improvements on their own. I know Secretary Haig and I can count on the support of members of this committee for our security assistance programs.

"SHORT WAR" FALLACY

A fallacy in recent Defense policy regarding conventional warfare has been the "short war" assumption—the notion that in planning our strategy and designing our forces we could rely on the assumption that a conventional war could be of short duration. Commonsense and past experience tell us otherwise. I have therefore instituted changes to correct this fallacy. It goes without saying that, should deterrence fail and a conventional conflict be forced upon us, we would bend every effort to win the war as quickly as possible. However, unless we are so strong, or our enemy so weak that we could quickly achieve victory, we cannot count on a war ending within a few weeks or months. And deterrence would be weakened if the enemy were misled to believe that he could easily outlast us in a conventional war.

The efforts that I have initiated to overcome the "short war" fallacy—improved sustainability for U.S. forces, and a strengthened capability to expand Defense production—are essential to reduce the likelihood of war. The effort to achieve greater sustainability is a key part of the Defense Budget that I am submitting to you.

It is my intention that I have not mentioned nuclear strategy until now. This Administration does not regard nuclear strength as a substitute for conventional strength. And while we do not seek nuclear "superiority" for the United States, by the same token, we will make every necessary effort to prevent the Soviet Union from acquiring a superiority that would mistakenly and tragically lead them to believe a first strike by them could even succeed.

At present we spend some 85 percent of our total Defense Budget on non-nuclear forces, and that accurately reflects our priorities. Non-nuclear capabilities would, in fact, receive an even higher priority in our budget, had it not been for the fact that this Administration must cope with the severe inadequacies it inherited in the realm of strategic and theater nuclear weapons. As you know, we are faced by the necessity of modernizing and strengthening all three parts of the triad at once, and we have begun that awesome task.

STRATEGIC FORCES

I had briefed you last fall on President Reagan's program for the modernization of the strategic forces. I can report today that not only is it proceeding as planned, we are actually exploring possibilities for accelerating the delivery time of some of the most important strategic weapons systems.

As I stressed last fall, President Reagan's strategic force program takes a long-term view. This is essential since strategic arms take a long time to acquire and are part of our forces for many years.

Let me digress, at this point, on the question of MX basing. There continues to be unfounded press speculation regarding "abandonment" of parts of the MX program, specifically on the issues of Titan versus Minuteman silos for interim deployment and whether we in DOD have changed our minds about hardening silos. These stories are even more incorrect than most that have been floating in recent days about the Defense Department. Specifically, repeated previous DOD testimony before Congress indicated that the initial MX missiles would be deployed in "existing silos", either Minuteman or Titan or some combination of the two. After a careful study involving many factors, my decision in favor of deploying MX in Minuteman silos was based on five primary reasons: (1) their spacing is more compatible with BMD deployment; (2) they provide more flexibility for future expansion of the system, (3) they maximize operational effectiveness for MX; (4) they permit deployment in one wing, which minimizes C^3 problems and reduces cost; and (5) soil conditions dictate use of the Minuteman silos.

The DOD Appropriations Act for fiscal year 1982 forbade us to do super-hardening except as part of a permanent basing mode. Thus, we in the Defense Department have not changed our minds, nor have we abandoned the concept. To be charged with "changing our minds" when the Congress forbade us to proceed with our proposal for hardening existing silos for the MX is reasonably close to the height of inaccuracy.

But we also must take a longer term view of our overall military competition with the Soviet Union. President Reagan's initiatives on technology transfer, on East-West trade, on terrorism and Soviet penetration into Africa and Latin America are all part of this larger strategy. So are the President's initiatives on arms control. We don't expect quick results. But if we have the support of Congress for a coherent and sustained effort to strengthen our Defense and to improve other instruments of our foreign policy, the long-term prospects—I feel confident—are bright.

DEFENSE SPENDING

Let me now turn to specific budgetary questions.

The overall level of the Defense Budget must take account of the Soviet threat. We recognize full well that there are other threats. But only the Soviet Union has the power to inflect tens of millions of casualties on our population. Only the Soviet Union has massive and modern conventional and nuclear forces deployed, directly confronting our friends and allies in Europe and Asia. Only the Soviet Union has the forces and geographic proximity to threaten the free world's source of oil. And the Soviet Union is embarked on a sustained effort to encourage and arm totalitarian forces in various parts of the world, so as to expand its political influence and military reach. And, as we know, the Soviet Union is perfectly willing to use its strength directly, as in Afghanistan, or to intimidate or coerce from outside, as is the case in Poland.

Mr. Chairman, measured by the threat we confront, our proposed Defense Budget is fully justified and by no means extravagant. The grim fact is that even with the projected real growth, Soviet military investment is likely to exceed ours for many years. If we again cut back our Defense Budget, after only one year in the effort to regain our strength, this gap would widen, resulting in an intolerable deterioration in our security. If, on the other hand, Congress approves our proposed Defense Budget, I believe, Mr. Chairman, the danger to our security can be brought under control.

I know that you are deeply concerned about the budget deficit. I know that you feel under immense pressure to reduce outlays. And I know that many consider the Defense Budget the place where such outlay reductions can be obtained. Defense outlays can be cut in several different ways: pay and benefits can be reduced; funding for operations and maintenance can be reduced; investment can be curtailed; or our force structure sharply reduced. The first approach would seriously harm the morale of the military, and would conflict with Congressional Directives with respect to manpower that led to the first significant improvements in pay and benefits since the inception of the all-volunteer force. Reductions in operations and maintenance funding likewise would contradict consistent, and correct, Congressional directives to improve the readiness of our Armed Forces. Such cuts would result in curtailment of flying and steaming hours, training, and other key activities that are critical to military readiness.

FACED WITH HOBSON'S CHOICE

Finally, reductions in investment outlays could only be achieved through mammoth reductions in obligational authority. Because the relationship of TOA to outlays in roughly four-to-one for any given year (and as much as forty-to-one in the case of the first year of a new shipbuilding program), only vast reductions in investment—of a magnitude to cripple the orderly modernization of our forces—could produce reductions in the levels of outlays some Congressional voices have called for. For example, cutting B-1, MX, cruise missiles, two carriers and the Trident missile, for a total of $19.5 billion in TOA would result in $5 billion saving in outlays in fiscal year 1983. This would not affect the overall deficit materially, but it would signal the world the United States was still following the same old uncertain, unreliable policy of the past and courting grave danger as we face ever increasing Soviet strength. We are therefore faced with a Hobson's choice, and the answer is to choose none of the aforementioned alternatives, but instead to recognize that our Defense expenditures are geared to meeting a threat that is not related to our economic problems, except insofar as it seeks to exploit them.

We are requesting $258 billion in total obligational authority for fiscal year 1983, which we estimate will result in outlays of $215.9 billion, given the achievement of all the savings we will secure. Our decision to fund fully the weapons systems we are proposing, especially two additional aircraft carriers, and our decision to fund fully our multi-year procurements, account for the larger TOA and for 20 percent of the increase over the fiscal year 1982 budget. Thus, if the Congress approves the fiscal year 1983 request, we anticipate a lower rate of growth of total obligational authority for fiscal year 1984.

In designing the fiscal year 1983 budget, we gave first priority, for the policy reasons I mentioned, to improving the readiness of our forces. For example, flying hours for Air Force pilots, which had dipped as low as 13 hours per month in fiscal year 1978, will again be increased, rising from 17 hours per month in fiscal year 1982 to about 18½ hours per month in fiscal year 1983.

Our next priority is to improve the sustainability of our forces. At the moment, some of our forward deployed units have only a week's supply of key munitions. Thanks to the increases provided in the 1981 and 1982 budget, this situation will soon begin to improve. But our effort must be continued in the 1983 budget and beyond, if we are to achieve the minimally necessary levels of war reserve equipment, spare parts, and munitions. If approved by the Congress, the Reagan Administration's five-year plan for fiscal year 1983–87 will fund munition inventories to support U.S. ground forces in sustained combat in Europe and Korea for 60 days, and the RDF in a Persian Gulf contingency also for 60 days.

Apart from the crucial program for the modernization of the strategic nuclear forces, the most significant force expansion I am proposing centers on the Navy, particularly those components that have offensive missions. By the end of fiscal year 1982 our deployable battle force will total 514 ships of which 475 are general purpose force ships. By the end of this decade, when most of the ships in our five-year shipbuilding plan will have joined the fleet, the deployable battle force will exceed 600 ships. For fiscal year 1983, our requests include 18 new ships, six conversions, and one acquisition. The five-year plan totals include 133 new construction ships, ten conversions, and six acquisitions.

MOBILITY PROGRAMS

Our objective for mobility programs over the next five years is to develop the capability to deploy the Rapid Deployment Joint Task Force to southwest Asia in four to six weeks and to continue our plans to reinforce NATO with 10 Army divisions and 60 Air Force tactical fighter squadron in 10 days. Our program to do this contains additions to each component of mobility forces: airlift, prepositioning, and sealift.

After careful consideration of the alternatives for meeting our airlift needs, we have decided to procure 50 new C-5 aircraft to be supplied by Lockheed under a fixed price contract, and to contract for 44 additional McDonnell-Douglas KC-10 tanker/cargo aircraft. We chose this alternative because we needed to increase capability as rapidly as possible. Both C-5s and KC-10s are available, at quite favorable comparative prices, sooner than the C-17, and with minimum risk in cost, scheduled, or performance. The new C-5 is the result of the lessons learned from the first C-5. The KC-10s could be used as tanker or cargo aircraft. We also plan to restructure the Civil Reserve Air Fleet (CRAF) Enhancement Program.

To complement this airlift in meeting early deployment objectives, we propose to continue plans to preposition six divisions sets of POMCUS in Europe, to store equipment and supplies for three brigade-sized Marine task forces aboard chartered ships in the Indian Ocean and for one such force in Norway, and to position selected items of Air Force equipment at bases in Europe and Southwest Asia. We will also continue programs to store war reserve materiel for all Services in both of these theaters and in the Western Pacific.

To meet subsequent objectives that cannot be met soon enough by ships from the commercial fleet, we plan to strengthen DOD's surge sealift capability. We are requesting funds to complete conversion of the remaining four SL-7s and to further expand the Ready Reserve Fleet. We are also significantly enhancing Army and Navy capabilities for offloading cargo over the shore or in austere ports.

We plan fairly large growth in both Air Force and Department of the Navy tactical air forces. Air Force fighter forces will grow from roughly 36 notional wings at the end of fiscal year 1982, to 40 wings (26 active/14 reserve) at the end of fiscal year 1985, and to 44 wings (29 active/15 reserve) by the end of the decade. At the same time we plan to increase our Navy active carrier wings from 12 at the end of fiscal year 1982 to 14 in fiscal year 1987.

These force structure buildups will be supported by significant increases in tactical aircraft procurements over the fiscal year 1983-87 period. At the end of the funded delivery period the Air Force's fighter/attack aircraft inventory will exceed 4,800 (compared to less than 4,200 planned by the previous Administration). At that time, the Department of the Navy fighter/attack inventory will exceed 1,900 aircraft.

GROUND FORCES NOT BEING NEGLECTED

Our emphasis on developing more flexible and mobile forces does not mean that we are neglecting our ground forces. We will maintain overall U.S. ground force structure at a total of 28 Divisions: 16 active and eight reserve Army divisions and three active and one reserve Marine Corps divisions. And we plan major progress in modernization. We will procure 776 new M-1 tanks in fiscal year 1983, increasing the production rate from 30 to 60 tanks per month by late 1982 and eventually to 90 tanks per month by 1985. We also plan to buy 525 Bradley Fighting Vehicle systems for the Army and 267 Light Armor Vehicles for both Army and Marine Corps, providing a major enhancement in the tactical mobility of our mechanized infantry forces.

Mr. Chairman, I am keenly aware of the compelling need to manage our resources with the maximum efficiency. I have instituted a program which receives first priority and precedence, to cut out all waste, to find savings, to eliminate mismanagement. Deputy Secretary Carlucci will testify next week in greater detail on this vital program.

Our current funding policies result in specific five-year savings and economies in Budget Authority of $41.4 billion when compared with the funding which has been required to follow the previous Administration's policies. If fiscal year 1987 is included, the figure grows to $51.5 biilion and we will be looking for even larger savings in the years to come. Fiscal year 1983 Defense outlays have already been reduced by more than $5 billion based in new economies and efficiencies.

The constraints in effecting further savings must be properly understood. About 93 cents of each Defense outlay dollar are committed at the start of the year to cover prior year programs and minimal operations of the Department. This leaves only seven cents of each Defense outlay dollar for spending for new programs. Moreover, short run outlay cuts in the Defense budget can imperil long-term goals. Because of Defense spend-out patterns, outlay reductions require program reductions almost four times as large. This causes serious program disruption and impacts heavily on faster spending readiness functions.

MUST CONCERT PLANS AND POLICIES

The task before us is too big and must be done too quickly for any one country. This fact sets before us one of the greatest tasks and challenges: we must concert our plans and policies more completely with our allies, so that we will have a common defense strong enough to ensure our freedoms at a cost tolerable to all. We must neither do less than our fair share because some of our allies may seem to do so. Nor should we abandon our efforts to convince them that we must all do our fair share, nor should we ever abandon them.

Mr. Chairman, for the natural strength of free societies to prevail in the long run, our defense strategy must do two things. First, it must bring to a halt the further expansion and consolidation of the Soviet military empire, whether this expansion would proceed through direct Soviet military intervention (as in Afghanistan) or through less direct intervention (as in Angola, Nicaragua, and elsewhere). Second, our strategy must see to it that the productivity and technological creativity of free societies are not exploited or handed over to the Soviets to make good the chronic deficiencies of the Communist system, in the name and under the false banner of trade.

In the nuclear age, more than in any other period in human history, military strategy must be the servant of national policy, a policy that is the ultimate trustee of the nation's interests. But to paraphrase Clausewitz, policy cannot make demands on military strategy which strategy cannot fulfill. I have the responsibility as Secretary of Defense to tell you that, in my view, no Defense policy, no strategy, could succeed in the long run unless we pay close attention to the foundations for military strength. We must pursue a policy that ensures that our resources will not be diverted to strengthen our adversary, but instead will fully serve the cause of freedom.

Let me conclude, Mr. Chairman, by expressing my deep appreciation to you and to this Committee for the unstinting support given to the Defense Department during the past year.

General JONES. Mr. Chairman, I would like to make just about a 3-minute statement, if I could.

Chairman DOMENICI. General, you may proceed.

General JONES. Mr. Chairman and members of the committee, this is my eighth and last year to appear before Congress and present posture statements. I came into the service in the 1940's—a very turbulent decade—and I am leaving in the 1980's, also a very turbulent decade.

RIGHT ORGANIZATION NEEDED

There is a real need for increases in our defense capability, to provide the resources and to achieve the readiness and for capability. I look forward to testifying on this budget. But in addition to resources, we must have the right organization so that we can use those resources effectively. I do not think we have such an organization today.

We in the military operate basically within a committee system and, as this committee realizes, committees can perform useful services, but they are notoriously poor at running things, particularly a committee which, from its very start, has operated on the fundamental precept of unanimity.

It is stated even in law that if the five Chiefs cannot agree, we must report the split to the Secretary of Defense. Now, we do split on issues, but there is great interest in achieving unanimity within the military.

But even more importantly, four of the five members of the committee represent Services and the interests of those Services. The Services have an important role to play in recruiting and training and in designing and procuring the weapon systems. Competition among Services is good in many areas. You want Services to feel that they are the best; that if you give them a mission, they can do it. But you also need within the military a capability, across the board, to look at problems from a joint standpoint without being dominated by Service interests.

We in the military need to provide better advice on strategy and on longterm planning, and we need to provide better oversight of the combat forces. Today, that oversight is badly dispersed and diffused. I also would like to see the senior leadership of the military, rather than spending three afternoons a week debating on plans and resources and the rest, spend more of their time on the capabilities of the units and on managing the weapon systems.

So, I say if you are satisfied with the capabilities and the readiness and the discipline and the management of the weapons systems programs for the past 20-odd years, then do not change the system.

FUNDAMENTAL CHANGES TO BE RECOMMENDED

I, for one, think that there are fundamental changes needed. I am working with my colleagues; we will make our recommendations to the Secretary of Defense. I would expect that there will be various recommendations and splits in those recommendations. Those recommendations would include congressional action, and I look forward to appearing before the Armed Services Committees later this spring to go into more detail on the problems and what needs to be done to correct them.

Thank you, Mr. Chairman.

Chairman Domenici. Thank you very much, General.

I am going to withhold my questions and yield to Senator Boschwitz. Go ahead, Senator.

OPENING STATEMENT OF SENATOR BOSCHWITZ

Senator Boschwitz. Thank you, Mr. Chairman. I am pleased to hear the Secretary's statement and also General Jones' statement. I have been a very consistent supporter of the defense budget, and yet I find myself this year in the position that Senator Hollings and others of us do that we feel that the imperative of balancing the budget and the imperative of restoring some economic viability to our economy has to take precedence over even the demands of defense.

We believe on this committee, Mr. Secretary, that there should be a sustained and continuous effort that you spoke about. We are not quite sure, or at least this Senator is not quite sure, that we can make a comparison of tanks or planes or field pieces with the Russians, and whether or not that comparison is a viable comparison to make.

INFLATION SERIOUS ASPECT OF DEFENSE BUDGET

But just as the problem of inflation bedevils us all and bedevils the economy, certainly, as you pointed out in your testimony, it is perhaps one of the most serious aspects of the defense budget.

You noted that you have a $6.3 billion authorization for a couple of aircraft carriers and that is going to save $1 billion; it will save the inflation that always attaches to things that are delayed. I believe those were your exact words, and it is that inflation that we want to squeeze out of the defense budget.

The only way that this Senator can see, as a member of this committee, of achieving that end and goal is to control the budget that controls the deficit.

Mr. Secretary, I have been a very stalwart defender and proponent of increased defense spending. I was among the 55 that Fritz Hollings spoke about earlier, because I have a long memory. Most of my family was lost in the Second World War because the democracies had not the will, even though they had the ability, to repel aggression and repel totalitarianism. They did not exercise that will at that time, and I do not want to be part of a repeat of that kind of history.

I also recognize that the entitlement part of the budget, since 1960, has grown 1,100 percent, from $28 to $304 billion, and that the defense part of the budget has grown from 45 to 130 from 1960 to 1980 in outlays, and that is less than 300 percent.

Indeed, during a great deal of that period, a great deal of the moneys were not going for development and research and equipment building, but rather going toward Vietnam.

I must tell you, Mr. Secretary, it is hard for me to accept the idea that you spend $1 and it only costs 46 cents. I must also say that many other people who come here and tell us about their programs say it is a wonderful investment and we have to spend more; that if we spend more on that particular program, it will create economic activity that will render us additional taxes and that will thereby bring about an increase of our revenues and a decrease of our deficits.

I must say that the idea that it will create additional employment, create additional investment, is undoubtedly true. I think that any economist would say that defense spending will indeed be inflationary.

But, by and large, if you look at our history, during the 1960's it was 11 percent of our gross national product; during the 1970's, it was 8.6 percent of our gross national product. Those were two decades of virtually no inflation—2 percent on the average.

So, when we are talking about 6 percent of the gross national product, I would agree that that is not an inflationary level that needs to be contended with.

My friend Fritz Hollings, about whom I read this morning in the New York Times, is given instant credibility, it said there, by adopting a position of no growth in defense. He has indeed given some credibility to the idea that perhaps the entirety of the defense request need not be adopted by this committee.

I want to congratulate you, Senator' for this excellent article. I might say that I noticed some reference was made to some of your remarks on the floor of the Senate some time ago. I hope that that story will be laid to rest, and from all I know of you, that story should be laid to rest.

But in any case, Mr. Secretary, the politics and the economics of the day are such that I believe that this committee must restrain defense spending growth. I would like to ask you to address the question of how we can reasonably restrain the growth of the budget and bring about a balance if we do not reasonably restrain the very rapid growth that is requested in defense.

DOING WHAT HAS TO BE DONE IS THE QUESTION

Secretary **Weinberger**. Well, Senator, again, I think it is not a question of the economy or of the perceived fairness to other departments or the political realities, as you put it, or whatever. I think we have to look at what it is we are seeking to do and why it is we are coming before you with a request for increases in defense expenditures.

It is simply to enable America to resist the kinds of threats that are building up every day to our peace and our freedom and our ability to live in the world as we want to live in it.

I think the points I mentioned about inflation and about the deficit and all are points that are incidental to the argument. I was trying to make the point that we do not have the kind of inflationary results from defense spending that we do from other kinds of spending, because defense spending generates tax revenues. It nets against the expenditure and it creates a number of jobs.

This is not the reason for doing it. I am not advocating defense as a big welfare program or anything of that kind, but it does have that effect.

The other thing is to stretch it out more slowly; to do the things that you were talking about, having your rate of growth somewhat more gradual. Essentially, what that does is to make everything that you need more expensive, and delays the time when you get it.

In this series of dreadful equations that we face, delay is the one thing that we cannot build in as a factor. We do not know how much time we have. We think the threat is serious and it is obviously growing. We believe that even with the things that we have sought, in the time that it takes to get them we have no way of guaranteeing that we will have enough of what we need on time.

Chairman **Domenici**. Senator Hollings?

Senator **Hollings**. I thank my friend, Rudy Boschwitz.

Mr. Secretary, relative to the Carter figures, I think we ought to stop using them—and I say this in a most friendly fashion—as a comparison, because the present 1982 budget for your Department is only $3 billion more than what President Carter recommended.

Now, we all have got to realize that President Carter really left some good, whopping figures as he left town.

Secretary **Weinberger**. He underpriced everything in the budget, frankly.

Senator **Hollings**. That, Mr. Secretary, is what you do. We have got on page 177 of the CBO document that I referred to. You are under by a minimum of $60 billion. If you look at all the cost overruns that you will have, that $60 billion will likely grow to over $100 billion. So all of you have got a habit in the DOD of underpricing everything. You have come in with a B-1 bomber that you call $20 billion and the CBO and the GAO call it a $40 billion program.

NEW PROCEDURE INVOLVES DAY-TO-DAY MONITORING OF CONTRACTS

Secretary **Weinberger**. We call it $20 billion because we have a fixed-price contract, Senator, and because we have a procedure now which was not in effect in the Carter years, but which should have been. That procedure is very close, day-to-day monitoring of the contract, with a determination to find out what, if anything, is either slowing it down or making it more expensive, and doing something about it that week. That is the kind of procedure that we have now on all of the large items in the budget.

I meet every 2 weeks on the B-1B and the Stealth bomber, and others do it on others of the very large programs. So, we believe that we have taken precautions that we think should have been taken earlier to not permit cost overruns. Also, we have frozen the design of the B-1B. I put the money in the budget for the B-1 in 1971 when I was running the budget, and we should have had delivery in 1977. It was redesigned three times, and then President Carter canceled it, as you know, in 1977.

We have frozen the design and are monitoring the execution of the contract very carefully. We have a fixed-price contract.

Senator **Hollings**. We will watch that contract as it develops.

I have tried to emphasize that money is not the end-all and be-all of a strong defense. In fact, yesterday I testified before the Manpower Subcommittee of the Senate Armed Services Committee—which is Senator Tower's committee—in favor of the draft. We can save money there; but it is not an economic measure.

I think what we really need, rather than a demonstration of a military power, is a demonstration of willpower, a commitment by this country.

5-YEAR DEFENSE PROCUREMENT ANNEX DEVELOPED

With a 5-year defense procurement annex, we can be back to where we were a year ago. Now, I ask you in all candor, do you intend to actually develop one? That is the only way we on the Budget Committee can analyze the program details.

You said the former administration had underpriced. We would like to know where we are headed and what money we are spending. You know the annex is. It takes every major procurement program and projects the cost and quantities for 5 years, and we can understand the outlay rate and the inflation rate, and exactly where we are headed and what kind of defense we will have 5 years from now.

You promised it in your testimony last year; you said you could not get it together before fall. Well, that was fall of last year. My check with the Comptroller's office indicates that as of this week, they have got no idea of drawing one up.

Secretary **Weinberger**. It has been delivered, Senator.

Senator **Hollings**. Where is it?

Mr. **Borsting**. It should be up here.

Senator **Hollings**. Have you got one, Senator Tower? I have been looking for one.

Mr. **Borsting**. It just got here, so you may not have gotten a copy.

Senator **Hollings**. Well, I will take your word; I thank you very much.

Secretary **Weinberger**. It is on my desk; I thought it was on yours, Senator. But, yes, it has been delivered, and maybe they do with you what they do with me; they do not let me see my mail for 2 or 3 weeks after it arrives.

Senator **Hollings**. Well, I thank you very much. It will be very helpful to this committee and to Armed Services to find out where we are headed on these particular items. Thank you a lot.

Chairman **Domenici**. Senator Exon.

Senator **Exon**. Thank you, Mr. Chairman.

Mr. Secretary, I hope you felt in the past that I have tried to be helpful, and I am going to try to be helpful in the future.

Secretary **Weinberger**. I certainly do, Senator. You have been extremely helpful and supportive of the defense budget.

OPENING STATEMENT OF SENATOR EXON

Senator **Exon**. I hope that you will agree after I finish my inquiry here, but I am trying to put things in perspective not only for the members of the committee, but also for you who have grave responsibilities that I fully appreciate over in the military department.

MILITARY BUDGET SHOULD NOT BE CUT

It is my view that because of the very real and ever-increasing threat that we face from the Soviet Union, we cannot and should not make significant cuts in the President's military budget outlay figures for 1983, because to do so would significantly and adversely affect our basic conventional readiness, which has been the short-sighted road that we have followed in the past.

While we will make some further reductions, I suggest, in the overall budget in the nondefense spending area, it is my view that in the end we will not significantly reduce the President's unfortunate $92 billion deficit for next year, setting aside the legitimate question as to whether that figure is unrealistically low, which probably is the case.

But in my opinion, it would be just as foolhardy to allow the budget authority in the out-years to go on in its merry chase upward, which, if allowed to continue without funding other than through the deficit process, will guarantee continued high interest rates and, certainly, the failure of the President's economic recovery plan, regardless of how well it is intended.

ECONOMIC TIME BOMB TICKING AWAY

It does not do any good, in my opinion, to simply wring our hands. I would say to you, Mr. Secretary, that I think the administration fails to recognize that there is an economic time bomb ticking away. Basically, you stonewall it time and time again.

I call your attention, if you have not seen it, since you have trouble getting your mail, to an ad in the Washington Post this morning, an open letter to President Reagan and Members of Congress. It says here:

> Given the circumstances, there is no alternative to, one, slowing down all spending, not excluding defense and entitlement programs and, if necessary, two, deferring previously enacted tax reductions or increasing taxes; in order to have the necessary impact on the financial markets, these actions should be taken prior to any increase in the ceiling of the Federal debt.

That is signed by the American Bankers Association, the Mortgage Bankers Association of America, the National Association of Home Builders, the National Association of Mutual Savings Banks, the National Association of Realtors, and the U.S. League of Savings Associations, none of which are left-wing organizations or traditionally associated with the Democratic Party.

I am just trying to get across to you, Mr. Secretary, that we have problems, and I say it does little good and possibly a great deal of harm for the President to travel about the country in a campaign style, making speeches to pre-selected appealing audiences, appealing to the television cameras as he waves the American flag in damnation of those of us who were backers of a strong defense before he even came to Washington, D.C., and that includes the distinguished chairman and ranking minority member of this particular committee.

BIPARTISAN APPROACH NEEDED

We need more than anything right now a bipartisan approach to the difficulties that face America in defense and in the economy. I assure you that there is a very real chance of developing that out of this Congress if we can just get the cooperation of the administration, rather than the hard-sell, "put up or shut up" techniques that the President of the United States is continuing to use on the campaign trail.

This is not a time for a campaign. What I am trying to is to give some options to this committee with regard to what we are going to do to make some reductions in the out-years in defense expenditures, which I think there is a high probability that we are going to make, and I suggest that we should make those with prudence.

Are you in a position today, specifically now talking about the out-years, to begin to spell out for us what recommendations you would make, because you must share in this, if the Congress feels it is necessary to cut the out-year defense expenditures, as recommended by the President?

Example: Supposing that we had to cut the out-year by $2 billion or $5 or $10 or $15 or $20 billion, could you begin to outline for us some kind of a reasonable approach so that when we make the reductions, we would make them as painless as possible with regard to our overall defense strategy?

NO UNNECESSARY EXPENDITURES IN BUDGET SUBMITTED

Secretary **Weinberger**. Senator, we did not submit a budget that we believe has any unnecessary expenditures in it. We submitted a budget after we had made major cuts in it. You will recall last September, when we were well along on the path to presenting and completing the 1983 budget, we took $5 billion out of it, at the specific request of the President—a request with which we, of course, agreed. We took out another $6 billion, roughly, in the form of driving into the budget for 1983 major savings that we believe we can achieve through better management and better procurement practices—the multiyear procurement which the Congress authorized last year, and with a number of other systems—and better budgeting, better internal management, taking advantage of every small saving we can find.

I will cite just one to give you an example of the kinds of things we are after, and that is on travel. We have gone to all of the various travel agencies; we have taken advantage of all of the weekend specials. By doing that, we have saved about $65 million in our travel.

Now, that is not very much compared to the whole budget, but it still is a lot of money and it is the kind of thing we are trying to do. We do not have a budget here that has unnecessary or excessive spending. We have a budget that many of the military services consider to be inadequate, but that we have cut back to meet our fiscal resources.

$1 BILLION CAN BE SAVED ON TWO CARRIERS

The out-year spending that you speak of is very real and it is there, but let me just take one quick example, if I might, Mr. Chairman, about the two carriers that we are seeking. That adds $6.3 billion in authorization this year; it adds over $100 million in outlays.

The $6.3 billion, if authorized this year, will save us $750 million in the cost of construction, because the two carriers will be built together. They can plan their work force; they can order now the parts and the materials and the things that they will need.

We will save another $250 million because we will get them 22 months early—that is an enormous strategic advantage among other things—and that is because of the inflationary costs. So, we save $1 billion for two carriers that we know we will need by an authorization of $6.3 billion this year.

Now, if we cut off that authorization this year, that will mean that the two carriers, when we get them very much later than we should have them, will cost us very much more than even the $1 billion that we estimate we will save if we authorize them right now.

So, your unobligated balances or your carryover authorizations are simply a function of the slowness with which these big projects spend out. It is not a sign of either bad management or of the fact that we do not need to continue that defensive strength.

We do not want to be in the position, nor do we feel we are in the position of refusing to be reasonable or being stubborn, or anything of the kind. What we have done is submit to you, after carefully scrubbing it many times, a budget that we think is the very necessary, vital second 12-month increment in this plan to rearm America that we feel we have to do and we hope will be in time.

Senator **Exon**. Mr. Chairman, my time is up, but I would just like to say that I am not sure that the Secretary was responsive to my question. I would just leave it on the record that if he can help us make some determinations on where best to cut, I still think that would be helpful to us. If he feels he could do that as a part of the record at a later date, I would appreciate it very much.

Secretary **Weinberger**. Well, Senator, we would like to be as helpful as we can and we do appreciate the strong support of defense that you have given in the past. We hope that this year will be no exception.

Senator **Exon**. Be careful. [Laughter.]

EVERTHING IN BUDGET IS NEEDED

Secretary **Weinberger**. We do feel that we cannot really suggest to you things in this budget that should be taken out, because we think everything that is in there is needed, and we are going to make the maximum amount of savings in administering the programs.

But if the programs themselves are not authorized, we will have no opportunity to make those savings, and we will not get the things we need in time.

Senator **Exon**. Thank you, Mr. Chairman.

Chairman **Domenici**. Senator Tower?

OPENING STATEMENT OF SENATOR TOWER

Senator **Tower**. Mr. Secretary, I want to commend you on an excellent statement. I see us following an inclination here in this committee to debate at this point Ronald Reagan's economic program on which there are many differences, rather than engaging in a real assessment of what our defense requirements are and what we must do to meet those requirements.

Now, in my view, an important question is going to be resolved in the next couple of years, and that question is, are the Western democracies prepared to make the sacrifices necessary to insure their own survival? That is an enormously important question.

If we size our defense establishment to budgetary considerations rather than the threat, we will have answered that question in the negative, in my view.

Now, we talk about percentages. There is nothing magic in percentages—3 percent, 5 percent, 7 percent, 10 percent. Percentages are arrived at only after you calculate what your requirements are and what the required increase is to meet those requirements.

CUTS IN BUDGET COULD CONCEDE MILITARY SUPERIORITY

Percentages, slavishly adhered to, are likely to get you nowhere. Now, Mr. Secretary, I would like to ask you, if we reduce the President's recommendation for outlays by $40 billion over the next 3 years, will we, in effect, concede military superiority to the Soviet Union?

Secretary WEINBERGER. You would concede military superiority, Senator. You would also concede the fact that we totally lack the will to take even the normal defensive measures that would deter them from an attack. You would be inviting an attack, you would be offering them an opportunity to attack with the certain knowledge that we could not retaliate with anything like the force that would deter them from striking again until they had won or were able to inflict nuclear blackmail on us and the world.

A cut of that magnitude would be a cut of somewhere in the neighborhood of $180 billion in authority, and it would totally destroy the ability of the country to regain the strategic strength that it needs. It would totally destroy the ability of the country to regain even a small increase in necessary conventional weapons.

You would simply be dismantling the effort and advising the world and the Soviets that we were no longer going to have any kind of defensive strength. It would be a call for unilateral disarmament.

Senator TOWER. Thank you, Mr. Secretary. I hope that we in the Congress will be honest with the people of this country if we do not meet our defense requirements and tell them that we have given priority to other matters.

DEFENSE IS EXCLUSIVE FUNCTION OF NATIONAL GOVERNMENT

I suggest that money we spend on national security is one of the few things that Government spends money on that benefits all of the citizens. If we look at entitlements and transfer payments and things of this sort, they benefit important constituencies of our society.

I would note also that defense is an exclusive function of National Government. If the National Government does not do it, it will not be done. There are other areas of Government expenditure which perhaps not adequately, but at least in part, if reduced, might be met by State and local government or private, public-spirited organizations of various kinds.

Mr. Secretary, if we effect significant cuts in the recommendation sent forward by the President, how will that impact on our arms negotiations both from the standpoint of the reduction of theater nuclear forces and strategic arms?

Secretary WEINBERGER. Senator Tower, the only reason we are at Geneva now, in my opinion, discussing the President's very bold and welcomed proposal to try to eliminate the threat of intermediate-range nuclear weapons in Europe is because it is perceived by the Soviets that we have started on a totally different path—a path which will lead us to a degree of strength that can deter attack.

If we enter those discussions with a perceived weakness or with a national will perceived as being insufficiently strong to regain that kind of strength, the Soviets may sit at the table and talk for 2 or 3 years, but they are never going to make any kind of concessions or any kind of agreements that result in reduced armament. The only way to reduce armaments and the only way to secure a result that we all want—and that is to reduce the level at which deterrence can be maintained—is to enter negotiations with strength.

I have been in negotiations in the private sector for years, and so has the President. We are both very well aware of the fact that if you enter negotiations from a position of perceived and actual weakness, you never emerge from them in any other way.

Senator **Tower**. Mr. Secretary, probably this is a question that might be answered by General Jones as a professional military man.

COMPLEXITY VERSUS SIMPLICITY

We have heard reference to complexity versus simplicity, and my substitute for the term complexity is "sophistication." Is it not true that in many instances, sophistication makes a weapon more effective, easier for the operator of that system, more survivable for the operator of that system, and actually more maintainable?

I think of two much maligned systems: The M–1 tank, which is a far more effective piece of field equipment than the M–60, and the tank drivers themselves would rather have it than the M–60. It is more effective, more accurate, and more maintainable. It is the only thing that we have in our inventory that will stay on the battlefield with the Russian T–72 or the Russian T–80.

The much maligned F–18—actually, we do not commend these cost overruns, by the way; we want to get a handle on those, let me hasten to reassure you. But the F–18 requires, I think, about half the maintenance hours per hour of flight than the F–4, which is currently in our inventory. It is a more sophisticated piece of equipment; it is more effective.

Is it not true that in addition to superior numbers, the Soviets are also gaining superiority technologically in many of their systems, and we have to sophisticate to stay on the battlefield with them? Let me address that question to General Jones.

General **Jones**. Senator Tower, it is clear that misunderstandings are rampant with regard to the complexity of weapon systems, their sophistication and reliability.

The Soviets have more than 4 million men under arms; we have 2 million men and women. They outproduce us by very large quantities. We have tried to make up that differential by quality, by better capability, by better firepower, by better survivability and by superior individual weapon systems.

Over the years, we have done quite well in that regard, but the gap is narrowing. Within the ground forces, the Soviets have many, many pieces of equipment, particularly in air defense, that are more advanced than ours. So, the technological edge is narrowing and we ought to be doing more in research and development and more in the area of maintaining that qualitative advantage to avoid giving it up.

Furthermore, when you procure hundreds and hundreds of systems, as some advocate, that are supposedly very inexpensive per unit, then you need—let us take airplanes; whether carrier or land-based—a far larger support structure. You would need more carriers; you would need more air bases; you would need more personnel to operate those systems that supposedly would be much cheaper.

NEED TO PUSH FOR QUALITY

We have made some mistakes in weapon system procurement, obviously, but overall I think the complexity/simplicity argument has been badly overdrawn and we need to push for quality.

Senator **TOWER**. Mr. Secretary——

Senator **METZENBAUM**. Mr. Chairman, is there no 5-minute rule?

Chairman **DOMENICI**. John, the 5 minutes is up.

Senator **TOWER**. It is? I am sorry; I thought we had 10 minutes.

Chairman **DOMENICI**. Senator Metzenbaum?

OPENING STATEMENT OF SENATOR METZENBAUM

Senator **METZENBAUM**. Thank you, Mr. Chairman.

Mr. Secretary, I was impressed by the statement of the chairman of the Armed Services Committee when he stated, are the Western democracies ready to make the necessary sacrifices to assure their own survival?

I note that we spend 5.5 percent of our gross national product on defense; France, 3.9 percent; West Germany, 3.2 percent; and Japan, less than 1 percent. I wonder whether that question is not equally applicable to them.

Mr. Secretary, my question to you is a very simple one. What does it cost us to maintain our military forces in Western Europe, and what does it cost us to maintain the protective cover for Japan?

Secretary **WEINBERGER**. I would have to get you the exact figure, Senator, and we will be glad to do that and supply it for the record. We keep about 350,000 troops in Europe. We have ambitious reinforcement plans. I think whatever the cost, it is entirely worth it because I cannot imagine our surviving in a world where Europe was overrun.

Senator **METZENBAUM**. If you would be good enough to supply those figures——

Secretary **WEINBERGER**. Yes, I will get the figures.

Senator **METZENBAUM**. Thank you.

Secretary **WEINBERGER**. It is a substantial amount; there is no question about it. I think every bit of it is worth it.

[The following was subsequently supplied for the record by the Department of Defense:]

COST OF FORCES DEPLOYED IN EUROPE AND WESTERN PACIFIC

Senator **METZENBAUM**. What does it cost us to maintain our military forces in Europe, and what does it cost us to maintain the protective cover for Japan?

Answer. We estimate the cost of our forces in Europe to be $41.2B and the cost of the forces in the Western Pacific to be $24.2B. These figures include, in addition to the direct cost of the combat forces involved, an allocated share of the costs of new equipment, a proportionate share of U.S. based training and logistics support, RDT&E and DOD administration.

QUESTION OF MANAGEMENT PRACTICES RAISED

Senator **Metzenbaum**. Now, Mr. Secretary, as you know, I have raised the question of management practices with you, with Senator Barry Goldwater, with Senator Armstrong, and with Senator Warner. We have been down to see you and, in all fairness, you have been very receptive and, I think, cooperative.

But, frankly, Mr. Secretary, I come from a State that is in the Midwest, middle-class America—people who want our military to be as strong as possible, but they cannot understand how we can spend 24 percent of our total budget in 1981 on defense and go up to 37 percent by 1987.

They also cannot understand, Mr. Secretary, certain things that are elementary. They do not understand too much about trigger pricing and supply-side economics, but they can understand some things. They can understand if their kids do not have school lunch programs or if their kids cannot go to college; that is very understandable to them. They can understand that senior citizens cannot participate in nutrition feeding programs.

They also can understand some other things that are elementary. They do not understand as much about the MX and some of the other sophisticated programs, but when they learn through the press that routine, nonpriority message by teletype cost a wasteful $20 million a year for the Defense Department, they have difficulty with that.

I guess they even have more difficulty when they say, "Well, why should the 300 senior officers at the Pentagon have personal servants?" Senators do not have personal servants; I do not think even the Cabinet members are provided with personal servants. Why is the military provided with personal servants—300 of them?

Why does the military have to have so many limousines? They use half of all the limousines that we have in our Government. What is there about a general that causes him not to be able to ride in his own automobile? It seems to me that we do not have that kind of aristrocracy.

They do not understand why we spend $90 million a year for military bands. In all fairness, they play extremely well for both the Democratic galas and the Republican galas, but we really question whether they are needed. As a matter of fact, we have three military bands in this area alone. We spend more for each one of those three than the National Symphony Orchestra budget.

They do not understand why those in the military are entitled to have their dogs and their cats given a special kind of treatment by veterinarians which costs not much—$400 million—but it is still money.

PEOPLE DO NOT UNDERSTAND COST OVERRUNS

They do not understand why, when we buy an M-1 Ace that was supposed to cost $200,000 originally, now costs $1.6 million, or why there is sole source procurement. You and I have talked about the fact that 90 percent of the Government contracts in the Department of Defense are let by sole-source procurement.

There is some argument as to whether that 90 percent is right or whether it is 65 or 60, but whatever. They do not understand why we have consistent cost overruns, and I noted you addressed yourself to that question previously.

But the fact is, as a business person, if I agreed to buy a piece of equipment for $400,000 or $40 million, that is the price I would pay. That never happens in the military; the contract is always open for renegotiation.

I would just say, Mr. Secretary, that the American people want our military to be very strong, the most powerful military in the world. But they do not understand why our American military system cannot run as efficiently and as effectively as the American business system.

They are aware of the complaints that were made by President Eisenhower when he left office about the military-industrial complex. They are aware of people going from the military to the other side and joining up with the defense contractors, and knowing that before they left the military.

I think you have a great title, "Cap the Knife," and I would just hope, Mr. Secretary, that instead of being in Saudi Arabia or Jordan making arrangements for them to have more military aid from us, and all over the world, that you would be back here slashing this budget not in a way that makes our defense weaker, but in a way that makes us more business-like and more typical of the way businesses operate in this country.

That is, a statement, I know, not a question, but I must share with you the feelings of the people that I represent in Ohio.

Secretary WEINBERGER. Mr. Chairman, I see the red light on. I would like very much to respond briefly to that.

Chairman DOMENICI. You can answer.

SOLE SOURCE CONTRACTING NOT LIKED BY PENTAGON

Secretary WEINBERGER. Senator Metzenbaum is talking about sole sources, and he and I have discussed this. I disagree with his percentages, but sole source contracting is not the kind that we like. We have not yet found any way to force people to bid, and sometimes the only people you get to bid are single contractors.

We had another example of it, not directly, but unfortunately one that we did not like very much but could not do anything about. That is, when Chrysler wanted to sell its tank business they only ended up with one applicant. That happened to be General Dynamics. We would have liked to have had 8 or 10 people bidding on that.

A large part of it is our own fault. We have been very bad customers, the United States. We have started a big contract one year and we have canceled it the next. We did not offer any kind of inducement to contractors to gear up to do that. They feared they would be canceled, and many times they were.

A large part of it is the U.S. fault, as I have said. A large part is the fault of contractors' who have not held to their schedules. But, unfortunately, again you go back to the previous Government problem, and that is that the contracts have not required that. We have inherited some extremely bad contracts, starting with the *Trident* contract. The submarine was two-and-a-half years late when I took office, and we have had to revise that contract.

You talked about renegotiating contracts. Yes, we renegotiate contracts and try to improve them. There was no inducement whatever to the Electric Boat Co. to go ahead with the *Trident*. We had practically guaranteed them they would suffer no loss, and they had every inducement to build the attack submarines, which they did for a profit. We have most of that straightened out now.

With the B-1, we have a fixed-price contract. We have frozen the design, so we are not going to redesign it three or four times and make it far more costly and be 10 years late in getting it.

LARGE ITEM CONTRACTS FOLLOWED CLOSELY

We follow the contracts far more closely by regular weekly meetings on the large items, as I mentioned just a moment ago. These are all things that we are doing and are going to continue to do.

With respect to the trips that you mentioned, the Saudi Arabian trip was designed to and did result in producing the kind of agreement that is required to enable the President to carry out his commitments to this body with respect to the sale of the AWACS plane.

With respect to Jordan, I am sorry that you read so many erroneous accounts. Had you inquired as to the facts, I would have been glad to tell you, as I have told everyone who did, that we not only made no offers to the Kingdom of Jordan for any equipment, but they did not ask us to. We did tell them the very bad effects that we felt would follow from having the Soviets supply arms to those countries and how dangerous it would be for them, for Israel, and for ourselves.

I repeated many times the fact that at no time did we have any interest whatever, nor did we have any slight suggestion, in weakening the commitment to Israel. We wanted to maintain that. What we wanted to do was add to our strength and add to our friends in the Middle East, thereby adding to the security of the United States and the Middle East and Israel. Those were the things that actually took place on that trip.

Sometimes those trips are necessary. I would much rather not make them because the in-baskets pile up and you have to work three times as hard when you get back. But there were some things accomplished on those trips, particularly in Saudi Arabia and in Oman where the government has been extremely supportive of the United States and I think needs encouragement and received it, and in Jordan where the position of the United States was made clear and where I think we added to the number of friends that we have and that we have to have in that area.

On the other global issue of veterinarians for the military, I will have to take your question on that and find out what the facts are, because I really am not aware of any free veterinary service being provided. It is not given to my dog, and I do not know of anyone who does get it.

Senator METZENBAUM. How about the servants?

General JONES. Mr. Chairman, may I address a narrow issue here on perks?

Chairman DOMENICI. Please.

ONLY FIVE GENERALS HAVE LIMOUSINES

General **Jones**. First, there are not 300 generals and admirals in the Pentagon who have help in their quarters. There are a few of us, yes. There are not a lot of generals and admirals in the Pentagon with limousines. There are five of us, the Joint Chiefs, who have cars provided, not limousines.

You talked about operating as business operates. Look at the perks in the business community and what is there. Our people ask some of the same questions, Senator. Why can we not get paid for speeches or have some special tax discounts?

Senator **Metzenbaum**. I did not vote for that.

General **Jones**. I am not critical of the Congress because I think those are very valid requirements.

Senator **Metzenbaum**. I think you are right.

General **Jones**. So, I am not raising that in criticism. I am just saying that one must keep the few perks that exist in perspective, particularly with the pay ceiling we have; for example, we have a three-star general who could not qualify for a loan for a reasonable house and is having trouble putting his children through school.

There is a great tug to get out of the service. We are not in the service for the money, but it is not a trivial consideration. We are losing some of our best and our brightest because of some of these difficulties.

What you will end up doing is being pennywise and pound-foolish by going after some of these areas that are not well understood. I just wanted to get the facts out on the table.

Chairman **Domenici**. Thank you, General. I have not heard you be so frank and respond so admirably to Senator Metzenbaum before. I hope it is not because you are leaving. [Laughter.]

General **Jones**. No. He just hit a soft nerve.

Senator **Metzenbaum**. General, I will respond to you about the limos because the published information is far greater than five.

General **Jones**. There are a lot of cars over at the Pentagon.

Senator **Metzenbaum**. Chauffeur-driven cars.

General **Jones**. There are a lot of cars in the basement of the Pentagon that are not assigned to individuals. When people come to this hearing, they are not expected to take the Metro or their personal car, so these are used for official business.

There are only five generals and admirals in the Pentagon who are authorized a personal car from domicile to the Pentagon. There are other vehicles there—I am not denying that—that are used to take people around on business here in town.

Chairman **Domenici**. Senator Grassley.

Senator **Grassley**. Thank you, Mr. Chairman.

Chairman **Domenici**. Senator, before you start, I have to go make a quorum in the Energy Committee. I will return quickly. Senator Boschwitz, you are in charge.

[Whereupon, Senator Boschwitz assumed the chair.]

CHOICE BETWEEN STRETCHING AND DELETING PROGRAMS IMPOSSIBLE

Senator **Grassley**. Mr. Secretary, I have got a question that deals with something you do not want to deal with, and it follows up on what Senator Exon suggested of trying to get at some figure.

I appreciate the fact that you have said that this budget is a sound one and you have dealt with all these questions, but in a very general way I would like to know, if there is a lesser level of spending decided by the Congress than what you are suggesting, would your inclination be to completely delete some of the more marginal weapons programs, or would you stretch programs out in an effort to preserve all programs?

Secretary **Weinberger**. Senator, you have given me an impossible choice because I would take neither of the above. The simple fact of the matter is that the programs and the weapons systems that remain in this budget, after we have gone through it and taken out a great many of the initial requests, are programs that we think we need.

If you reach the conclusion that these are programs that we think we need, the worst thing in the world is to stretch out their acquisition. That delays the time when you get them and it makes them infinitely more expensive in the final analysis. So, we would not recommend either of those.

I have to point out in response to your question and in partial response to Senator Exon's question that the period within which these funds are outlaid is a very significant thing with the defense budget. In order to get any kind of major outlay savings in the first year, 1983, which is the one we are talking about—the budget before you—the only way you can really do that quickly is to reduce the personnel very, very sharply, because personnel costs outlay at about 97 percent the first year while the big weapons systems outlay at about 15 percent the first year.

So, you can cut out substantial personnel. You could eliminate two divisions. You could eliminate seven tactical air wings. You could take away one or two marine amphibious units. You could stop construction on a number of ships so that you will not need the people to man them, even though these ships are rapidly approaching completion since many of them were started 8 or 9 years ago.

Those are ways in which you can cut down the people. That saves you a lot of outlays right away, but we recommend none of them.

The other thing you can do is stop a very large number of programs. You could stop the MX; you could stop the B-1; you could stop the tank acquisition; you could stop the Trident submarines. You could stop one or two other large programs. You would save about $4.8 billion in outlays if you did all of that. You would shatter your recovery from the position we are in.

You would delay by a large number of years, and make infinitely more expensive, the reacquisition of the necessary strategic strength. So, when we talk casually of saving $5, $6, $7, or $8 billion in outlays, we have to realize that it means somewhere in the neighborhood of $25 to $35 billion in authority. We also have to realize that even longer delays in rebuilding our strength would result, while I cannot tell you with any confidence if we can do it in time, even with this budget.

READINESS HAS BEEN INCREASED

Senator **Grassley**. On another point, I would like to have you explain what I consider to be an apparent contradiction. Readiness obviously is still a problem. You have suggested in your report to Congress that you are going to be working to improve readiness. The budget that has been submitted to us for consideration has in it, also, a substantial buildup in terms of materiel.

At the same time, however, the readiness accounts appear to be falling in relationship to procurement. Now, is that not an inconsistency?

Secretary **Weinberger**. Well, it would be if it were the fact, but I do not think it is the fact, Senator.

Senator **Grassley**. OK.

Secretary **Weinberger**. What we have done is to increase readiness in a number of ways. We have increased the amount of flying hours per month. We have increased the amount of ammunition—the number of days supply of ammunition. We have increased the amount of ammunition and fuel that we have for maneuvers and for training time.

We have increased a number of items that would bring the existing units that we have to a higher state of readiness, a higher state of preparedness, and increase their sustainability, should they get into conflict, including the increased stores of ammunition.

NATO standards are about 30 days of ammunition supply in many situations; we have been as low as 12 and 8 and 9 days. We are getting up in the 20's with this budget. We have a Soviet capability of 60 days in most of the European front. We have increased the number of maintenance tests that we are doing. We are reducing the maintenance backlog which has been very large and which has built up to almost $4 billion, despite Congressional desires that we hold the backlog at no more than 1.8 or 2 .

We have depot maintenance and overall of the ships so that they can be online and ready. In previous years, sometimes half of various units were incapacitated and unable to move at short notice because their equipment was either being repaired or needed to be repaired.

These are not very glamorous items. These are not the things with large constituencies. These are the things which are usually cut first because they are easy to cut, not having the constituencies behind them, and because they do outlay rather rapidly. But they are the worst things to cut, in our view, because they do impact upon readiness and sustainability.

MILITARY PAY RAISE ABOUT 8 PERCENT

Senator **Grassley**. What is the increase in military pay in next year's budget—the total figure?

Secretary **Weinberger**. It is about 8 percent on the overall. The Congress responded, I think, extraordinarily well last year in making the increases necessary to repair the shamefully low levels that we had been paying in previous years. I will get the exact amount in dollars for you. It is about 8 percent.

Senator **Grassley**. You can give us that in writing, then.

[The following was subsequently supplied for the record by the Department of Defense:]

The estimated fiscal year 1983 cost of an 8-percent military pay raise is $3,007 million.

Senator BOSCHWITZ. Senator Chiles?

OPENING STATEMENT OF SENATOR CHILES

Senator CHILES. Thank you, Mr. Chairman.

Mr. Secretary, I was 1 of the 55 that helped reverse the Carter budget trend, and also tried to support everything that you were trying to do last year.

You have testified at great length about the budget that is before us today, and told us that it contains no fluff and no padding and that we cannot make cuts without interfering with the orderly progress of rearming the United States.

You have also told us that the budget should be viewed in terms of what is needed to meet the Soviet threat, and that it is inappropriate to talk in terms of trade-offs with other Government programs. I, along with others, share your concern about the growing Soviet threat.

I have had an intelligence briefing, and I can tell you it ruined my week to see everything they are doing and how they have continually grown at rates beyond what our military advisers projected they would in almost every area and for almost every projected time in which we thought they would do something.

I am convinced that we need to respond to that threat, but I would like to know how to respond to the question that has been asked me by the chairman of the board of a bank in the panhandle of Florida. He says he does not think there is a meaner hawk in the State of Florida than he is, but his wonder is: What good is a strong national defense if we do not have a strong economy to defend.

That is the question I think we are trying to come to grips with, as many people are, Mr. Secretary. How do we deal with that?

WITHOUT STRONG NATIONAL DEFENSE THERE WILL BE NO ECONOMY

Secretary WEINBERGER. Well, I deal with it this way, Senator. The first basic approach is, of course, that if we cannot guarantee the safety of the country and deter aggression, then we are not going to have an economy at all. So, we have to start with that as the reason why we attach such a high priority to regaining the strength necessary to deter aggression.

Military superiority is not contemplated; nothing of that kind is contemplated at all. It is simply to regain the strength necessary to deter aggression.

The principal way I would respond to it is to say that we do not harm the economy by the things that we are talking about doing. We are talking about adding $33 billion, for example, in outlays for defense this year; 12.6 of that is for inflation, another 15 is to continue with the programs that prior-year authorizations require us to continue with, 12.5 of that relates to personnel costs—the increased pay, retired pay, and general operations of the Department—and 5 of it is investment in new programs. None of that, we think, will be inflationary.

We did make the point earlier that defense spending differs from other governmental spending in that it produces tax revenues, and you do not have a total effect, 1 for 1, on the deficit. You cut $5 billion from defense spending; you are not reducing your deficit $5 billion, because you are reducing your tax revenues, too. You are reducing your deficit about $2.4 billion, or something of that kind.

So, you are not going to benefit the economy significantly by major cuts in defense. You are not going to have our friends on Wall Street, who are so volatile about these matters anyway, suddenly perceive that because we have cut $5 or $6 billion more out of defense—and we have already taken $5 billion out, remember, and made other savings—that you are going to bring your deficit down from 92 to 87 or 88, something of that kind, initially.

Senator CHILES. Our greatest fear is not this year, of course; it is in the coming years.

Secretary WEINBERGER. Our greatest fear for the years that go beyond is that we will not recover the strength rapidly enough to do the job that we all agree is absolutely vital to do, and that is the preservation of peace with freedom.

We do think that the expenditures that we have requested begin this year, such as the new carriers and things of that kind, are expenditures for items that we urgently need. They by no means represent the total of the requests that were made to us. The budget has been very substantially reduced from those requests.

But we do think that it is vital, in view of the threat that you and I are both familiar with, that we start and continue on this path. The hard thing to do in all this is to realize the length of time it takes to accomplish the job.

We brought the whole Minuteman system on in about 3 years in the 1950's, and now it is going to take about 7 or 8 for a new system. In order to do that, we need a steady, resolute path and a will to follow that path through economic difficulties and otherwise.

UNITED STATES HAS TECHNOLOGICAL ADVANTAGE

Senator CHILES. Well, I think what everybody is talking about is not cutting defense, but how rapidly can we allow the increase to go.

I guess one of the few remaining areas where we have something of an edge left over on the Soviets is in our ability to innovate and develop new technologies to solve critical problems, defense or otherwise. In fact, some feel we have gotten to the point where we rely too heavily on expectations that we will develop new technologies to solve all of our problems. To the extent that this is true, though, that we do possess some technological advantage and some capability to generate new solutions, it seems that we leave the barn door open and allow easy access to that technology to our adversaries.

It has been said that Soviet advances in accuracy of multiplehead missiles was made possible by a purchase of high-precision U.S. ballbearing grinding machines; that perhaps the Soviets are using our oil-bit technology to make superhard, armor-piercing ammunition; that the Kamma River truck plant which was built with Western technology and loans, supplied the trucks for the invasion of Afghanistan.

Have we not recently recovered a sonar buoy which they used for tracking our submarines, and didn't we find it had a microclip on it that is the duplicate of an RCA device that we again developed?

Secretary WEINBERGER. You are absolutely right, Senator. You are one hundred percent right on every item that you have cited. The technological edge was one of our great advantages, and we are losing it.

COCOM SYSTEM NEEDS TO BE OVERHAULED

Senator CHILES. I read where the Defense Department only has 20 employees working generally on the technology transfer program. What can we do to shut that down? What can we do about nations whom we give our technology to, and then they are transshipping it to others?

Secretary WEINBERGER. Under the name and false banner of trade, Senator, they are assisting in the transfer—and, unfortunately, we are too—of much valuable technology to the Soviet Union. I think we have to overhaul our COCOM system. I think we have to make sure that we have a sufficient awareness of the fact that trading with the Soviet Union is not like trading with other countries; that their trading profits go directly into military expansion and that they take full advantage, after either acquiring legitimately or stealing it or by other means, of this kind of technology.

They do not have the ability to develop much of it themselves, but they can copy. As a result, they have some extraordinarily sophisticated weapons and they have eroded a lot of the lead that we once had in this field.

You cited the problems of the aiming systems, the guidance systems, the sonobuoys. All of these things are things that they did not develop themselves, but developed only with the technology which they obtained from us or from the West.

I think we have enough employees working on the matter, but I think that we have to have a much greater awareness of the dangers among our allies and among the people generally. We get letters every day from all kinds of people who are very anxious that particular contracts be approved because they say they will mean U.S. jobs, or it will mean the difference between a profit and a loss for this company or that.

Many of them get extremely abusive when the Defense Department rejects applications for transfers. I think we need a much greater awareness of this, as we do of the entire Soviet threat.

But every example you cited is absolutely correct.

Senator BOSCHWITZ. Senator Kasten?

Senator KASTEN. Thank you, Mr. Chairman.

ALLIES URGED TO INCREASE DEFENSE SPENDING

Mr. Secretary, the United States has consistently tried to urge our European allies to increase their defense spending, and Senator Metzenbaum referred to some of the percentages. I think it is interesting also at the same time that we are now seeing the European allies criticizing our huge deficits; they are beating us up on both sides. It is our money that is going to their defense.

What effect do you feel any U.S. decision or Budget Committee decision to reduce your 1983 defense request will have on the allied willingness to increase defense spending?

[Whereupon, Senator Domenici resumed the chair.]

Secretary **WEINBERGER**. Well, it will just give them additional arguments of the kind we hear so often, Senator. You started to make one about their chiding us for our large deficits, which they think add to their interest rates.

We point out, correctly, that part of that deficit is the need to defend ourselves. I should have added to Senator Chiles that part of that large defense expenditure is to overcome the results of things that the Soviets have received from us either legally or illegally.

What we do with the allies is to try to impress upon them our common needs as effectively as we can. We know that big budgeting speeches are not going to do much good. They do not respond well to threats, and neither do we. But we do try to point out to them the desirability and the absolute necessity of their making their contributions to the total effort; that we cannot do it alone.

MANSFIELD AMENDMENT SURFACING AGAIN

I have pointed out to them many times that the isolation sentiment in this country is always very close to the surface. Just as we heard yesterday, there are a number of people who are now talking seriously about a Mansfield amendment again, which I think would be a tragic mistake.

But all of these are reasons why we believe and why we urge upon them that they should increase their defensive effort themselves. Some are doing very well. We should not feel that the entire NATO alliance is lagging behind in contributions.

Countries like Italy that have a very difficult time have made magnificent contributions. Britain has done very well in spite of a very difficult economic situation. Germany, this year, is probably going to have something less than level flow; they will probably have a negative growth. So, it is not a uniform picture.

Japan has finally made some increases and is making some substantial additional efforts. We applaud that very much.

We keep this pressure on in the most effective way we can because of our worry, first, that we will not have enough of the total freedom that we need; and, second, that the refusal to take sacrificial action of the kind that we are asking our people to take will result in a loss of support at home for the alliance.

It is vital that we keep that support; it is vital that we not have a Mansfield amendment. We urge upon them that they take actions that are consistent with that.

Senator **KASTEN**. Well, it is starting to produce slight results, as you mentioned, in Japan. Germany is not reaching its 3 percent; we had hoped to maybe push them to 4.

I guess all I want to say that we in the Congress urge you to keep that pressure on and, No. 2, we are running out of patience. Our allies, and particularly Germany and Japan, are going to have to understand that this is not just rhetoric coming from one or two people, but this is a deep and serious concern.

Whether the result is a Mansfield amendment or whether the result is just a military pullback, we are on the verge, I think, of having a majority of votes in both the Senate and the House to make some changes in this direction, and our allies ought to understand that.

Secretary **WEINBERGER**. I think your comments are very valuable, Senator, because they represent exactly the opinion that I have tried to relay second-hand to a lot of these countries. I think it is important that the realization be there that this kind of sentiment is, I am sorry to say, growing in this country.

Believe me, the effort is made at every meeting and at every opportunity, and I hope it can be more effective. It is, I think, starting to be quite effective in a number of countries.

AMERICAN PUBLIC GETTING MORE FACTS

Senator **KASTEN**. A number of people this morning have commented on the Defense Intelligence Agency's briefing—the Soviet military capability briefing. I know you have declassified the book that finally was published, but it seems to me—and I think it is the majority view here—that this information we are receiving secretly is information that simply must be made available to the American public in order to generate support for the kind of increases that you are talking about.

What are you doing in order to make this kind of information available, and specifically in the area of photography? I think it is one thing to talk about it, but it is another thing to see it.

Secretary **WEINBERGER**. First of all, we are trying to get much greater distribution of the book that you mentioned, "Soviet Military Power," which is declassified now. We are also, while being fully aware of the concerns of the intelligence community to protect sources and to insure that valuable security data is not divulged, trying our best within those parameters to get more and more of these facts out to the American people.

I agree with you completely; we need a lot of help. I would think that people who have seen the briefings and people who have read the book could do a very great deal as messengers throughout the country relaying this story. We do all that we can. Some people discount it because it comes from the Pentagon and they challenge the motives that we have in trying to discuss the nature of this threat.

The more people who do it, the better. We will certainly cooperate in every way, both in trying to get more and more information declassified and in making information available in as useful and easily understood a form as we can.

Senator **KASTEN**. I believe it is an urgent need.

Thank you, Mr. Chairman.

Chairman **DOMENICI**. Senator Hart?

OPENING STATEMENT OF SENATOR HART

Senator **HART**. Mr. Secretary, you used a phrase that intrigued me in your opening remarks: that if we in the Congress did not support substantially all of the increase you and the administration have asked for, this would be interpreted by people around the world, friends and foes alike, as the same old vacillating United States.

I assume that that is not the United States that spent $50 billion in 3 years in Korea and several tens of thousands of American lives, or the United States that faced the Russians down off Cuba in 1962, or the United States that, in the 10-year period in Southeast Asia, invested close to $350 billion and 50,000 American lives, or the United States that year in and year out for 35 years has sustained one-third of a million men in Europe at the cost to American taxpayers of what is estimated now to be $70 or $80 billion annually.

So, assuming that is not the old vacillating United States you are talking about, let us go back to the Korean war just for starters. You mentioned Korea in your remarks. You said there was a threefold increase in the defense budget in response to the North Korean attack, and your remarks were directed at the problem of gearing up.

Now, let me point out something to you. We not only geared up very fast, but 3 weeks after President Truman committed this country to support the United Nations effort there, he came to the Congress with a message. The message, according to one source—the source I quote is "The Financial History of the United States," published in 1963—began by pointing out that increased military spending would inevitably produce inflationary pressures. It then stressed the need to dampen these pressures and it proposed a program which, in its general outline, was similar to that for World War II.

What the administration hoped to do was maintain a balanced budget even if military costs doubled. The President asked, and I quote him, "to finance the greatest possible amount by taxation." And then he went ahead to ask for, in addition to the fiscal program—to limit competition from the private sector, he asked Congress to give him power to allocate strategic materials, to put a ceiling on the production of consumer goods, and to restore credit controls. To prevent price inflation, he asked for power to impose price and wage ceilings.

DO NOT INCREASE TAXES TO PAY FOR MILITARY BUILDUP

This, I think, was the last military involvement of our country where we paid as we went. Would you advise the President, therefore, if you believe the threat to be as serious as you say it is—among the darkest and most serious in the history of our country because of the Soviet buildup—to pay for this military buildup in the same way we did in Korea, by increasing taxes?

Secretary **WEINBERGER**. Senator, I would not because the President's proposals to reduce taxes are going to produce a strengthened and surging economy that will produce more tax revenues than many people believe at this time. I do not think that there is any advantage to the United States economy, nor that it will do any good, to increase taxes. I do think it is essential that we get ourselves back—not even close, but back—toward the position from which President Truman was able to start when he had an actual, declared war going on in Korea.

He started from immensely higher levels of preparation in defense than we have now.

Senator HART. It was not a declared war.

Secretary WEINBERGER. We are talking about how to get back to a position where, should we have aggression inflicted upon us, we will be able to respond to it in a way that will, we hope, be sufficiently strong to deter it.

Senator HART. I think the President would go a long way to convincing the American people of the seriousness of the threat if he asked the American taxpayers to pay for this defense increase.

DO NOT ADD TO BURDEN OF TAXPAYERS

Secretary WEINBERGER. The American taxpayers will pay for this; there is no way in which anyone else can pay for it but the American taxpayers, as you know. There are ways, however, of stimulating the economy to produce more revenue without adding to the burden of the American people.

My own feeling is that if you increase taxes, what you are going to do is discourage and dry up the kind of investment that we think is essential to revive the economy.

Senator HART. Mr. Secretary, I would like for you and General Jones both to respond to a series of quotations that I will present to you from the record of the Senate Armed Services Committee from the period of February 2 to February 10.

Beginning with your statements, Mr. Secretary, to questions asked by, I think, Senator Nunn, you referred to the joint strategic planning document as "simple paper." Senator Nunn asked, "Is this a wish list?" You said, "That is what I described it as. We do not have evidence that all these things are wished for."

Later, General Jones, in response to a question on that same day, February 2, you called this document, "an effort that we developed as an objective plan, and made the judgment that if you are to try to meet crises simultaneously in various parts of the world under very demanding circumstances, you would need additional forces and additional capability even above that program"; namely, the administration's 5-year proposal that we have before us.

Later, General, you said, "There are critical needs that we have not been able to obtain within the growth in this budget."

Later, still, Mr. Carlucci testified before our committee that somebody took the document that I am talking about—the joint strategic planning document—and translated it into dollars and put it on a chart. "We spent all of 30 seconds on it there, but we spent a lot of time on it subsequently. But everybody immediately dismissed it," he said.

Later, still, Mr. Carlucci said, "There is a chart," referring to this joint strategic planning document, "that was flashed on a wall that said if the Joint Chiefs decided they wanted to take on several wars together and wanted to do everything that they thought could be involved in every single contingency, you might have a defense budget of $750 billion more than you are requesting now"—namely, that the administration is requesting.

"That in no way," he said, "implies that $750 billion more is needed to carry out the strategy laid before you in that document. It is a totally misleading figure again made public through a leak; it bears no relationship to reality."

Later, still—and I apologize because this is a confusing record—before our committee on February 10, the Chief of Staff of the Army, General Meyer, said this about that same document: "I do not consider it a wish list. If you believe the defense of the Nation is important and the job required to do that, I do not consider that a wish list. If you determine it in those terms, no. If you determine it in the context of, is that total requirement going to be procured or be supported, I do not think there is anybody who believes that they are ever going to get all that money when we go in. It is our responsibility to say what we think is necessary for the defense of the Nation."

Finally, Senator Nunn to General Meyer: "So, you view that as a serious document and serious effort by the Joint Chiefs?" General Meyer: "Yes, I do." Later, General Meyer: "I think the message that comes from the gap between what is required to do what he said was necessary to do for the defense of the Nation is that we are accepting tremendous risks with the size of forces that apparently have to do what we have pledged to do."

Senator Nunn: "You are saying we either have to recognize that we are taking a very, very large risk—you said a huge risk—or we have to take another look at our strategy, or a combination of the two?" General Meyer: "Yes, sir."

General Jones, would you care to respond to that entire exchange?

LOT OF EFFORT PUT INTO JOINT STRATEGIC PLANNING DOCUMENT

General JONES. Well, we do produce the document—we call it the JSPD—that you referred to. In it we try to come up with the force requirements and the capabilities of those forces to reduce the risk around the world, based on simultaneous engagements.

If you look back, since World War II we have had regional capabilities. When we fought in Korea we have decimated our capability in the rest of the world. When we fought in Vietnam we drew down our capability. We incurred a risk at that time; it was not as great as the risk now or in the future because Soviet power projection capability was increased dramatically.

We in the joint system work on that document, and there is a lot of effort put into it. Some of the misunderstanding is that somebody else came up with the $750 billion figure, which is more than twice the cost of the items called for in the JSPD document. The number to reach the JSPD force was less than half of that $750 billion.

There were other items that others had calculated. In fact, that $300-plus billion that would be required if you were to meet all of the JSPD requirements was developed after the JSPD was originally completed.

We also realize that the JSPD is a 10-year projection into the future.

Senator **Hart**. Your best estimate is that somewhere between $300 and $350 billion more is needed?

BUDGET DOES NOT MEET ALL REQUIREMENTS

General **Jones**. Yes, if over the 5-year period, you were to meet the JSPD requirements. That does not mean that we recommend that sort of immediate increase in the defense budget.

As I mentioned earlier, there are some critical needs that were not in the budget. This is not a budget that meets all of our requirements, not only in the area of force structure, but, for example, in the sustainability of forces. We would like to be able to sustain our combat operations longer than is provided for in the 5-year budget, and particularly during the first few years of the budget.

So, this is not a no-risk budget. There is no such thing as a no-risk budget. We are measuring the degree of risk. We would like to see it lower, but our collective judgment is that this is a reasonable defense budget and it gets us moving in the right direction.

Secretary **Weinberger**. Mr. Chairman, I think the Senator, perhaps without meaning to do so, has compiled a powerful argument to the effect that this is a fiscally constrained budget. If he is prepared to support supplementals for these additional amounts, he might have some considerable support on the professional side of the Pentagon.

It is, however, a fiscally constrained budget. The points that he has made are simply points that others made to us and that we might well have tried to adopt if we did not have fiscal restraints that reduced the rate of increase that we have sought.

We would be glad in closed session to go over with the Senator the types of force level increases that some of the Joint Chiefs have felt would be necessary to bring us out with less risk. But it is certainly not an argument for reducing the budget that we have brought in.

Senator **Hart**. It was not intended to be, Mr. Secretary. It was intended to point out that we may be headed into an even more dangerous period than you say we are in now.

Secretary **Weinberger**. We are indeed.

Senator **Hart**. Let me finish my statement; that is, we will extend our commitments without the capability to meet them. That was the point that all that made. You called it a wish list, and some of the senior military officials of our country have said that if we were going to adopt the strategy of this administration, a large part of that wish list was necessary to do so.

FORMULATE STRATEGY TO MEET NATURE OF THREAT

Secretary **Weinberger**. Senator, it is not a question of if we are going to adopt the strategy. It is the strategy that is forced upon us by the nature of the threat. We cannot adopt a strategy that says we hope the Soviets are going to be good boys and put all of this that they are acquiring in a garage somewhere and not use it.

We obviously have to formulate our strategy to meet the nature of the threat. What we have done is present to you our recommendations for doing that within the fiscal constraints under which we all operate. If you have a fiscally unconstrained plan, then it runs up into these far higher totals.

But I see no advantage to pointing out that if we had more money, we could get more force strength. That is the conclusion that we would draw, but we cannot disregard fiscal constraints, although some people seem to be under the impression that we have done so.

Chairman **DOMENICI**. Senator Quayle?

OPENING STATEMENT OF SENATOR QUAYLE

Senator **QUAYLE**. Thank you, Mr. Chairman.

Mr. Secretary, you have outlined the threat of the Soviet Union very capably, and it certainly is alarming. And as Senator Kasten and others have said, I think it needs to be told in a little more detail.

Perhaps whereas the American public does not fully appreciate this Soviet threat, they do appreciate and understand the economic threat to this country. We all know that the Soviet threat is real and puts our national security, as you have said, in jeopardy.

However, do you not agree with me that when we are talking about national security, there is a certain amount of jeopardy to our national security when we have a weak economy with high unemployment and continued high interest rates?

REDUCING DEFENSE BUDGET NOT GOING TO IMPROVE BUDGET

Secretary **WEINBERGER**. Senator, no one likes the economic conditions we have now. The point we have been trying to make all morning is that reducing the defense budget is not going to improve the economy. It is not going to lower the interest rates. It is not going to put people suddenly back to work. Cutting the defense budget is negative on every one of those aspects.

Senator **QUAYLE**. Mr. Secretary, do you believe that a weak economy, a continued recession, and a continuation of these interest rates and high unemployment do have a certain detrimental effect on our national security?

Secretary **WEINBERGER**. Well, it has a detrimental effect on the Nation. The fact is that by trying to strengthen the Nation's security, you help the economy and you relieve a lot of the conditions that you spoke of.

If I thought for a moment that cutting the defense budget would suddenly bring the interest rates down and give us a surging economy again, then we might think that it would be worth taking the risk—and it is a serious risk—of slowing down 1 year. I do not think that. I think that it would have the opposite effect.

I think that you would delay and make infinitely more expensive what we have to do, and I think you would not help the economy at all. But no one can argue with you that having an economy with the weaknesses that you have identified is a good thing; it is a bad thing. It is just that we have different views of the remedy.

Senator **QUAYLE**. It is a bad thing and it does have a detrimental effect on our national security. Now, I am not suggesting, Mr. Secretary, that just by cutting defense, you are all of a sudden going to have economic relief and downward pressure on interest rates.

NEED TO DEVELOP PSYCHOLOGY

But what I am talking about is a psychology that needs to be developed in this country that everybody is working together. The problem that a number of Senators have alluded to here today is that everybody is going to sacrifice except the Pentagon. When you have that kind of perception and when you have that kind of psychology, I think it does a disservice to the economic recovery that we want to see.

Just cutting defense alone, depending on how much and where, is not going to do it. But I do believe that the political reality—and you can see that as well as I can—is that the Congress is, in fact, going to reduce the increases in defense spending.

I do not believe the question any more is whether we are going to do it. I believe that the Congress is going to do it. Every single alternative budget that has been proposed shows a slowing down of the rate of increase. The question is no longer, "Are we going to reduce the amount of spending?" It is where and how much.

I would just like to ask you what is a preferable position. Is it preferable for Congress to just sort of go on its own and come up with the alternative budgets and have 5 percent here, 3 percent, 7 percent?

Or would it be prudent and advisable for the administration at some point in the near future to come forth with a reassessment, saying that with the recession and with the scarcity of resources, we are simply going to have to revise our strategy a bit because we are not going to get the increase in defense spending that we had once projected?

CUT IN DEFENSE SPENDING WOULD WORSEN ECONOMY

Secretary **Weinberger**. I think, Senator, the assumption behind that is that by doing that, you would somehow help the economy. My feeling is that with respect to the defense budget, which is my responsibility as far as the executive branch is concerned, that would worsen the economy. It would also send the signals that I have mentioned around the world of a very unfortunate nature, and it would delay and make far more expensive things that we ultimately will have to do.

When you speak of it as only being fair for defense to share in the reductions, I get the impression that you think that the Pentagon's budget is some sort of personal gratification or something, and that it has to be restrained.

Senator **Quayle**. I do not mean that. What I do mean is that since we have limited resources and we have these excessively high deficits, we all have got to share together. You cannot just exclude one segment.

I believe that if we would slow down the rates of increase that are projected and come to grips with that problem, we would be far better off for our national security and for our military interests. What we have done is, in a way, hurt the coalition that was developed last year—a very fragile coalition—on the issue of increasing defense spending.

If we take a detached viewpoint that defense spending is going to be immune from budget scrutiny, then unfortunately, in my opinion, you are going to see a coalition develop where antidefense spending is going to be very popular and prevalent and acceptable in this Congress.

Secretary **Weinberger**. That would be a very, very dangerous thing to have develop. We certainly would want to avoid in every way we could, having that happen. But when you say, Senator, that we have limited resources and so everybody has to share in the reductions, what you are saying really to me is that there is no priority list at all; that you just have to go across the board and cut everybody down, without any recognition that some things are more important in particular years than other things.

This year, I cannot think of anything more important than getting on with and doing the second year increment of a long, expensive job that is absolutely essential to the preservation of the kind of system that you and I want to have continue.

Senator **Quayle**. Mr. Secretary, the only thing that we are talking about is slowing down the rate of increase. Nobody is suggesting an increase in spending on nondefense items. As a matter of fact, most of the alternative budgets show an increase in defense spending, defense is going to get an increase. The question is how much of an increase, and this is where we are arguing. This is where I urge you at some point—and I know you cannot turn around next week and say, "We are going to reassess," but I would hope that you would begin to send some signals to the chairman of our committee, who has worked very hard, and others that there is some running room on this Pentagon budget.

If we do not get that message, then the Congress is going to come up with 535 different ways to cut defense spending, and I think that that would be far more detrimental.

STRENGTH COULD NOT BE RECOVERED WITH FURTHER CUTS

Secretary **Weinberger**. I think the point that I have tried to make, and apparently not sufficiently effectively, is that we have already made substantial reductions in the 1983 budget, not only way below the wish list, or whatever it is, that Senator Hart was talking about, but in a number of other lists that came in that were fiscally constrained.

Having done that, I cannot in good conscience, fill my responsibilities with any degree of honesty, if I told you that we could make further reductions in this budget and still recover the strength that we need in time. I still do not know if we will have enough time.

Senator **Quayle**. As a supporter of yours and this administration, and also as one who has a record of unblemished support for a strong national defense, I look forward to working with you and others to get a handle on this situation so we can provide, with the amount of money that is going to be available, as strong a national defense as is possible.

Thank you, Mr. Chairman.

Secretary **Weinberger**. I will look forward to working with you, Senator, very much. We have appreciated your past support. I hope we can look forward to it again.

Chairman **DOMENICI**. Mr. Secretary, I have a list of questions that Senator Symms would like answered. We are on a rather short fuse; I would appreciate your efforts to answer them as soon as possible.

Secretary **WEINBERGER**. We will do that.[1]

RESPONSE TO ALTERNATIVE PROPOSALS CRITICAL

Chairman **DOMENICI**. Mr. Secretary, there are two proposals that I am aware of with reference to Defense—mine of 5 percent real growth, and Senator Hollings' freeze in fiscal year 1983 and, I think, 5 percent in the out-years.

I am going to ask you if you will do something for us, Mr. Secretary, and then I will tell you why. I know that this committee does not have line-item authority, and in one sense that is good but in another sense that is very dangerous.

OMB, presumably with your department's input, is in the process of analyzing the effect of these two alternative Defense proposals. I would ask you to make your own response to these alternatives. What would you do?

I really believe the response to that is very critical. If you produce a response that does not have credibility, then I assume the committee may have the tendency to throw it aside and say we did not get a relevant answer.

Now, I am not saying that to you because I assume anything that would happen, but I honestly believe you have heard the sentiment and I think you must give us an honest evaluation of what precisely you would do for the next 3 years if that was the case.

All I want you to do is to understand how critical that is. We cannot have somebody with expert knowledge saying your assessment was geared to show the most damaging effect of any reduction proposals. I would hope that you will agree with this committee and that you will try to do that.

Secretary **WEINBERGER**. Well, Senator, first of all, we always want to try to be as responsive as we can to committee requests. There are, as you can appreciate, an enormous variety of alternatives, should the Congress be unwise enough to force reductions in the amounts that are being made available for the rearming of the country.

There are, as I said, a number of alternate plans. The problem that we would have would be to show the committee a variety of different kinds of situations and results and additional costs that would take place if we pursued those paths.

Also, we would have to say, in all frankness, to you that not only do we not recommend them, but it would be our strong recommendation, based on the responsibilities which have been assigned to me, that this would be a very dangerous and very unwise path to follow. But we will certainly try to accommodate you.

Chairman **DOMENICI**. Well, Mr. Secretary, I understand that, and you know that I understand that.

Secretary **WEINBERGER**. Yes, I do.

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[1] See p. 58.

HOW WOULD RESOURCES BE USED

Chairman **Domenici**. You know, we are not asking you for 30 alternatives. My question to you was, when OMB evaluates Senator Hollings' approach and my 5 percent real growth on BA and when you send us your evaluation—obviously, you are going to evaluate it from the standpoint of your present feelings, which I greatly respect—I am just asking that you do that in such a way that if that occurred, you would be telling us what you would do with the resources that we give you—not all kinds of other plans. At least we need those two for this committee.

Now, let me tell you the dilemma we find ourselves in and see if you can appreciate our problem. I believe it is fair to say that based upon the testimony of expert witnesses—conservative economists, liberal economists, and others that we have heard from; we have one left to hear in the next couple of days, so I will exclude him—the consensus is that the risks on the economy are very great if we do not substantially decrease the deficits.

You assess the defense problem of this Nation with some kind of risk factor in your head, whether you quantify it or not. I am beginning to think that the risks of success in getting interest down permanently, inflation down, and real growth built in for a sustained period of time, are somewhere around 10 to 1 in terms of risking this economy.

Now, that is a big burden on us. We do not know how right we are, but I think we are getting very close to making that kind of an assessment. It now appears that the only way to address that issue is with a major package that includes entitlements, discretionary appropriations, some taxes and some defense.

Now, no serious proposal before this committee, so you will know about prioritizing, cuts entitlements as little as the President's. For example, the President's entitlement cuts over 3 years, in bulk, are around $52 billion. You are an old fighter in that trench. You started in fiscal years 1970 and 1971, predicting exactly where we are.

Secretary **Weinberger**. I did.

Chairman **Domenici**. Just to use my proposal not by way of saying it is the greatest, the entitlement curtailment there is $106 billion in the same time frame. If my numbers are right, it is more than double—$52 versus $106. I am not offering military restraint without offering this package first—the reductions in discretionary funds which have been rather large, Mr. Secretary.

In your day, if you would have fathomed that we would put discretionary appropriations, other than defense, on a trend line which is really no real growth at all, you would say that could never occur. We are already there.

PACKAGE HAS LITTLE CHANCE WITHOUT RESTRAINT IN DEFENSE

The basic proposals contemplate another $25 to $32 billion in cuts there in the next 3 years. Now, we are not taking the economic situation lightly if we are willing to do that. Now, I think what this committee is saying is a package of that type, including some tax increases, has little chance unless there is some restraint in defense.

Now, I cannot stress any more how urgent we think things are. I think the compelling majority will vote for few defense cuts, if for any reductions at all in the defense budget, unless we have a package.

It seems to me we have little support in terms of consensus for tax changes that will yield revenues unless we have this kind of a package reduction. Now, what we have got is one following the other, and I give you that so you will understand the nature of the problem we confront in terms of assessing risk here.

If we are wrong on the economy and it will indeed work without those significant reductions in deficits, then obviously we are assessing the risks improperly. Now, since you have been an OMB Director, you understand, so let me leave you with one last thought.

The deficits that we are projecting and that the President is projecting, whichever are right, assume a vibrant, growing, deflated, interest-stabilized economy. Now, you know that we have never in our history expected that to occur—4.5 to 5 percent real growth, unemployment down to 6.2 percent, inflation way down, interest way down—we have never been able to do that and have deficits in the area of $80 to $140 billion, whichever number you want to buy; it just has never occurred.

So, that is what concerns us, not the fiscal year 1983 deficit, but fiscal years 1984, 1985 and 1986, with sound, solid economic growth and still a reasonable prediction saying huge deficits.

Now, we have learned from all the economists—and perhaps we have heard wrong—that that probably will not work. So, we either will not get the recovery, or we will get it and it will be short lived and we will be back in the muddle.

Now, I give you that not to put any additional burdens on you, Mr. Secretary; you have got enough. I share the sentiments of this committee that what some of us have seen with reference to the Soviet buildup has to be made more credible with the American people. It does not have to be made any more credible with this Senator at all. I spoke with my good friend, Senator Chiles. He has gone and participated in the DIA briefing on the Soviet threat. Am I not right, Senator?

Senator CHILES. Yes.

RECOVERY BEING RISKED

Chairman DOMENICI. This hearing is not a nice one for us who are concerned about national security, I assure you. If anything, we will go on the side of more defense rather than take a risk. But it seems to some of us that we are risking a recovery, a buoyant economy, and support.

That is why I took these last minutes without burdening my fellow Senators, who had to make their points, to share this with you.

Now, I would be delighted to yield to Senator Chiles.

Senator CHILES. Mr. Chairman, I know the hour is late and we need to wrap this up. I just wanted to say in closing I wanted to compliment General Jones on the report that he is working on, and say that I think it is tremendously important that we get a chance to see that.

I hope the dissensions are not such that we do not get a chance to at least see the best recommendations you are making and that your study makes, because I think many of us have long known that the system we have designed has been one that has been designed almost not to work.

While we thought we were trying to do away with competition a long time ago when we set up the concept of the Joint Chiefs, in effect we have destructured it and we have provided the rules upon which it does work.

I think that the study that is coming forward is something that is tremendously important as we try to sort out things and as we try to maintain this consensus that we have now which is so important in the country and in the Congress to provide for a strong national defense.

It is going to be very important, as we see ourselves continuing to have to cut in other areas that we have emphasized before, to convince people that we have the best strategy.

Again, when I look at those intelligence briefings, I realize that if we do not come up with the best strategy of how we are going to spend our money we are going to have a tough time competing against just the sheer numbers and the volume of materiel and dollars and rubles that the Russians are prepared to spend on the track that they are on now. So, I think that is tremendously important.

General Jones. Well, thank you, Senator Chiles, and be assured that you will have full access to all of the data.

Secretary Weinberger. Mr. Chairman, I wonder if I might add just one word in response to the very impressive statements that you have just made.

Chairman Domenici. Of course.

Secretary Weinberger. The first thing I would like to say is that, in all sincerity and without the slightest desire to be fulsome or anything of the kind, I think the work you have done since you assumed the chairmanship of this committee has been remarkable. You have accomplished a great many of the things that, as you kindly said, I tried to do in the early 1970's when suggestions of that kind were not only not popular, they were not even apparently thinkable.

PATH STARTED SHOULD BE FOLLOWED STEADILY

But you have accomplished a very large amount toward the objective of some budgeting for the country. The only other point that I would make is, as I have said perhaps two or three times already today, I do not think that the reductions that we are talking about in the plans that are suggested in defense spending will help the economy or help get the interest rates down.

I do think that the levels we have proposed, which have already been reduced, will not add to the problems of the economy. I do not question your political judgments or your estimates of the way in which it may be necessary to secure the votes to do this. I do not question that for a moment because your judgment is far better on that than mine.

I do think that in an attempt to secure some sort of perceived equity and fairness, and indeed to try to put together the votes necessary, we will make reductions that will slow us down in the road that we have to follow, in view of the threat that all of us recognize is there, and will make it infinitely more expensive in the longer run.

That is why I know it is so difficult, in this 12-month period that you and I and all of us have to work with as a rather artificial boundary. We should not overlook the need to keep on this path that we started on and follow it steadily in order to regain the strength that we have to have to enable us to maintain a free economy and a free people.

DEPARTMENT OF DEFENSE IS POOR CUSTOMER

Chairman Domenici. Mr. Secretary, I want to make a couple of other observations with you if I might. You made a statement before us last time that you were here that I have used over and over again in explaining such things as cost overruns and our inability to get a weapons system on line timely fashion.

It is a devastating statement; it is an indictment of many, many people, including Congress. You said it is a shame to have to admit that the Department of Defense is a poor customer. Do you recall that?

Secretary Weinberger. Yes, sir, very well.

Chairman Domenici. What that really means is that in the past, we have turned the funding spigot on and off. We have limited you in terms of multiyear contracts. You have had to go to the American private sector as a poor customer, and I do not think anybody can expect poor customers to get first-rate treatment. The American economic system does not respond that way.

If you are not a persistent, consistent buyer, you do not get the best deals. I understand that you have made some substantial changes there and that you are absolutely aware of that; that you must make your procurement a reliable and realistic procurement operation, or you will not get the kind of buys that the American people rightfully expect.

In fact, I think that is part of the answer to Senator Metzenbaum's, not on how many chauffeurs we have, and that business. You handled that quite well. But on the business of continual harping on cost overruns and the like, yes, we need some better management. But I really think you ought to bring examples of how you are left in this position.

I mean, you are not going to get good bids when you do not know whether or not you are going to buy the whole thing from them.

Secretary Weinberger. Exactly.

LIQUIDATED DAMAGES CLAUSE A DISGRACE

Chairman Domenici. The liquidated damages clause in those contracts is a disgrace. Who would build a new airplane factory with a $10 million liquidated damage clause if you wanted to cancel them out?

Secretary Weinberger. That is why we have only one bidder; you are absolutely right.

Chairman **Domenici**. So, I just offer this as my observation. I think you ought to bring examples of those and show them to us.

Secretary **Weinberger**. We will be glad to do that, Mr. Chairman.

Chairman **Domenici**. Thank you, Mr. Secretary.

Secretary **Weinberger**. And we do appreciate deeply the courtesy and the attention of this morning's hearing. I found it extraordinarily helpful, and I appreciated very much the way you handled things.

Chairman **Domenici**. The record will be open for 24 hours for additional requests, and we will send them to you promptly.

[Whereupon, at 12:38 p.m., the committee was adjourned.]

[The following was subsequently received for the record:]

WRITTEN COMMITTEE QUESTIONS TO SECRETARY WEINBERGER AND THE RESPONSES

Defense Reduction

Senator Domenici: You stated during the hearing that cutting $40 billion in defense outlays over the next 3 years would constitute "unilateral disarmament." After further reflection, do you stand by this statement? As we calculate it, a cut of $40 billion in FY 1983-FY 1985 outlays would be the approximate result of holding defense budget authority growth to 5 percent per year in real terms. Given the percent real increase in Defense Budget Authority in 1982, would not continuation of 5 percent real growth per year for the next few years still permit major strengthening of our defense capabilities?

Answer: Yes we do. The Defense budget is a function of the threat we face, and we cannot with any degree of accuracy say that the threat is disappearing or weakening. The large increases requested last year, which are continued with this budget, have not yet made appreciable progress in closing the gap that has opened through years of neglect. This request was submitted after a thorough and careful review of our capabilities as compared with those of our adversaries, and we believe contain no unnecessary expenditures.

Defense outlays grow in real terms at 10.5% from FY 1982 to FY 1983. If the real increase in FY 1983 outlays were limited to only 5%, our outlays would be cut $10.7 billion to $205.2 billion. In order to achieve a reduction of this magnitude in our outlays, TOA and BA would have to be reduced over $40 billion.

Defense Spending

Senator Domenici: Please submit for the Committee's review the economic analysis supporting your statements to the effect that defense spending has a less detrimental effect on deficits and a more positive economic effect than other types of spending.

Answer: Total federal spending for FY 1983 will be about $758 billion. Nearly two-thirds of that total is for transfer payments - expenditures for which no goods or services are received. These payments are necessary to meet a variety of important social needs, but they do not result from new economic activity. About 13 percent is for compensation of federal employees. Although this is not a transfer payment and represents a dollar return for services rendered, it does not go first hand into the private sector.

The remaining 23 percent of the budget does go directly to the private sector in return for the production of new goods and services. This amounts to about $171 billion, of which nearly 80 % comes from defense requirements. The primary purpose for defense expenditures is to provide this nation's military capability. Yet, because defense depends to a far greater degree on the productive resources of the private sector, than other functions of the government do, it is often viewed as an economic burden when growing, and an economic boon when it is declining. Quite the opposite is true.

Within the portion of the federal budget that directly stimulates economic growth and expansion in the private sector, not only is it mostly defense related, but many of the defense projects induce important investment growth in new technologies. As a result, increases in the level of defense expenditures have a more stimulative impact on GNP than non-defense expenditures. Defense multipliers tend to add about $2.40 to GNP for every dollar as compared to about $1.80 for nondefense.

Concern is often expressed that defense final goods, such as tanks and airplanes do not produce any further economic goods and services. The same can be said for much of what is produced for use in the public sector, such as fire engines for city governments. Though not measured in a statistical sense, many projects originally funded for the military have had siginificant spinoffs and productivity advancements for other industries. Some examples are cast aluminum structures, laser welding, and computer integrated manufacturing. No one can say for sure what would happen to the economy if the defense budget were so much higher, or so much lower, or even if some other expenditure would exactly offset such a shift. We can say, however, that U.S. defense programs have successfully protected our economic way of life and provided a positive impetus to economic growth as well.

Senator Kasten: Mr. Secretary, your deputy, Mr. Carlucci, provided the Armed Services Committee last month with a series of tables outlining '83 budget authority increases that result from procurement and management reforms. These increases were compared with longer term savings from multiyear procurement initiatives, economic production rates, and productivity investment funding. I think you've taken some significant steps. But I don't believe these three charts provide all of the budget authority increases and corresponding planned savings. For instance, you've mentioned the $750 million estimated savings from full-funding two carriers this year. Could you provide the Committee with a complete breakdown of this information?

Answer: The Economies and Efficiencies reported to the Congress represent the most significant savings resulting from the implementation of the new DoD Acquisition Improvement Initiatives. The Department has always pursued a procurement policy of obtaining weapon systems at the lowest possible cost through traditional multiyear contracts, competition, and second sourcing. These strategies produce savings annually at each procurement level between headquarters and field activities. The savings occur on a routine basis from minor piece part procurement to the acquisition of major weapon systems such as full funding the carriers. We have attempted to report the most significant items resulting from our new initiatives in the Economies and Efficiencies Report.

M1, BFVS, And ACE Vehicle Replacement Potential

Question: I'D like to move from the general to the specific for a moment. I realize that we desperately need a new tank. And I realize that if we want one now, we're stuck with the infantry fighting vehicle and the armored combat earthmover if we want the M-1 to be able to do its job.

I know you share my concerns about the enormous length of time it took to develop this system. There's simply no reason for it to take the United States 20 years to get a tank developed and into production--and at such exorbitant costs.

My question is this, if we decided to cancel the M-1 (and the IFV and ACE) how fast do you think we could bring a new tank on line? Is there any chance that we'd come up with a cheaper model that could be produced quickly, in sufficient numbers, and capable of meeting threats posed by both the existing Soviet tank and its follow-on?

Answer: Past experience provides little optimism for developing and fielding a tactical vehicle system in less than ten years. This precludes relying on a new vehicle to offset the near term Soviet threat. Further, it would not be technologically possible at this point to design a single vehicle to fill the roles of the M1 tank, BFVS, and ACE. It would be more effective, I believe, to concentrate on reducing the cost and improving the effectiveness of these new generation vehicles by pursuing well-thought-out product improvement programs. Basically the M1, BFVS, and ACE vehicles are excellent performers which can be made more cost effective by competition and by design evolution.

Senator Symms: What would be the effects upon weapon systems procurement of a $10 billion cut in outlays in the Fiscal Year 1983 Defense Budget? What would the effects upon procurement of a $10 billion cut in TOA? Describe the leadtime problem in funding major weapons programs.

Answer: The effect of a $10 billion reduction to Defense outlays depends on the composition of that reduction. The impact varies if the reduction is applied against the total DoD Budget or only procurement appropriations, and in which program years it is absorbed. The composite procurement outlay rate is 13 percent the first year and 37 percent the second year which may provide a basis for a rough estimate of the impact of such a reduction.

The reduction would have to be accommodated by deferring new starts for major weapon systems, deleting DoD initiatives for efficient acquisition programs, across-the-board horizontal reductions, program stretch-outs, and in some cases termination of on-going programs. These types of actions only postpone fundamental problems of readiness, modernization, and strategic posture.

The leadtime problem relative to major systems is inherently simple. It takes too long to deploy new major weapon systems and to field the latest technological updates. DoD is addressing the problem by providing greater stability in the acquisition process, streamlining the DSARC process, providing adequate funding for test hardware, and through programing funds for Preplanned Product Improvements.

Question: Give the details of the $60 billion total savings in defense spending through Fiscal Year 1987 mentioned on Page I-44 of your fiscal Year 1983 Annual Report to the Congress.

Answer: For those economy and efficiency initiatives we have accomplished or are programed, I am providing an item-by-item list which totals $51.5 billion. We will keep you informed on these and future targeted savings as they materialize.

(The information follows)

February 8, 1982

ECONOMIES AND EFFICIENCIES
Department of Defense
(TOA $ Millions)
FY 1983 President's Budget

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY-81 to FY-86 Subtotal	FY 1987	Total
Pay Adjustments									
Civilian Pay Cap	-	1,774.0	2,879.0	3,804.0	4,553.0	5,155.0	18,165.0	5,674.0	23,839.0
Retired Pay COLA	51.0	307.0	255.0	208.0	213.0	191.0	1,225.0	196.0	1,421.0
Military Retirement System Reform	-	-	858.0	1,073.0	1,169.0	1,203.0	4,303.0	1,234.0	5,537.0
Subtotal	51.0	2,081.0	3,992.0	5,085.0	5,935.0	6,549.0	23,693.0	7,104.0	30,797.0
Acquisition	167.8	1,338.7	2,363.6	2,786.7	2,119.5	3,303.2	12,079.5	1,699.9	13,779.4
Operations	260.3	940.7	949.5	1,151.8	1,128.9	1,180.2	5,611.4	1,241.7	6,853.1
GRAND TOTAL	479.1	4,360.4	7,305.1	9,023.5	9,183.4	11,032.4	41,383.9	10,045.6	51,429.5

February 8, 1982

TOA $ Millions Saved By Category

Code	I. ACQUISITION	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
AA	A. Lower Cost Alternatives	118.4	147.6	69.0	133.2	261.5	332.1	343.6	1,405.4
AC	B. Increased Competition	-	12.9	13.6	13.6	13.6	13.6	13.6	80.9
AE	C. Productivity Enhancement	-7.5	34.2	58.9	73.3	73.1	58.0	33.7	323.7
AL	D. Legislative Reforms	-	69.2	-	-	-	-	-	69.2
AM	E. Multiyear Contracting	15.0	20.5	125.1	218.6	197.6	238.9	264.4	1,080.1
AP	F. Economic Production Rates	29.2	470.1	578.1	442.1	298.0	459.2	.4	2,267.1
AX	G. Elimination/Reduction of Marginal Programs/Systems	12.4	292.3	1,103.9	1,420.2	1,130.7	1,400.6	847.4	6,207.5
AO	H. Other Acquisition Improvements	.3	291.9	425.0	485.7	145.0	800.8	196.8	2,345.5
	Total Acquisition	167.8	1,338.7	2,363.6	2,786.7	2,119.5	3,303.2	1,699.9	13,779.4

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AA)	A. Lower Cost Alternatives									
	1. J-57 Spare Parts	APAF	98.6	86.9	-	-	-	-	-	185.5
	2. Consultants/Management Services	MPAF	.8	-	-	-	-	-	-	.8
	3. Boats and Craft Radios	OPN	-	-	.5	-	-	-	-	.5
	4. VTX	RDTEN	-	7.6	3.3	5.9	61.5	150.0	160.0	388.3
	5. Sub ASW SOW	RDTEN	-	-	8.6	53.3	52.8	-	-	114.7
	6. ITSS	RDTEN	-	10.4	16.8	59.6	-	-	-	86.8
	7. HXM	RDTEN	-	3.8	13.1	-	92.9	134.7	142.4	386.9
	8. U/S Surv	RDTEN	-	10.3	16.4	5.8	18.3	6.1	-	56.9
	9. Alternative Payment Plan (Computer)	OMDA	-	.1	2.1	.4	1.0	.7	.7	5.0
	10. Computer Purchase	OMDA	7.4	7.4	7.4	7.4	7.4	7.4	7.4	51.8
	11. Buy-out Plan	OMDA	-	.8	.8	.8	.8	.8	.8	4.8
	12. A-4 Ejection Seat	OPN	-	20.3	-	-	-	-	-	20.3
	13. F/A-18 GFE Breakout	APN	-	-	-	-	26.8	32.4	32.3	91.5
	14. Fuel Price & Storage	DSF	11.6	-	-	-	-	-	-	11.6
	Subtotal		118.4	147.6	69.0	133.2	261.5	332.1	343.6	1,405.4

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AC)	B. Increased Competition									
	1. Plug Compatible Mainframes (NSA)	OMDA	-	.2	.2	.2	.2	.2	.2	1.2
	2. Commercial Proc. Docs. (DLA)	DSF	-	9.4	9.4	9.4	9.4	9.4	9.4	56.4
	3. EOQ Purchases(DLA)	DSF	-	1.8	2.0	2.0	2.0	2.0	2.0	11.8
	4. Cross-Reference Screening (DLA)	DSF	-	1.5	2.0	2.0	2.0	2.0	2.0	11.5
	Subtotal		-	12.9	13.6	13.6	13.6	13.6	13.6	80.9

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AE)	C. Productivity Enhancement									
	1. Fast Payback	OPAF	-4.2	-	-	-	-	-	-	-4.2
	Capital Investment	OMAF	2.7	2.9	2.9	2.9	2.9	2.9	2.9	20.1
		MPAF	.9	.9	-	-	-	-	-	1.8
	2. Intrusion Detection	OPAF	-.7	-	-	-	-	-	-	-.7
		OMAF	-2.4	.3	.5	.7	.7	.7	.7	1.2
		MPAF	-	.2	1.2	1.8	1.8	1.6	.6	7.2
	3. Numerical Control	OPAF	-1.7	-	-	-	-	-	-	-1.7
	Equipment	OMAF	-	-.1	1.2	1.2	1.2	1.2	1.2	5.9
	4. Advance Word	OPAF	-1.4	-	-	-	-	-	-	-1.4
	Processing System	OMAF	-	.2	.3	.3	.3	.3	.3	1.7
		MPAF	-	.1	.1	.1	.1	-	-	.4
	5. Transportation	OPAF	-.8	-	-	-	-	-	-	-.8
	Operational Personal	OMAF	.1	.3	.5	.5	.5	.5	.5	2.9
	Property Standard									
	System (TOPS)									
	6. Productivity	OMN	-	23.8	27.9	35.3	37.7	38.7	15.0	178.4
	Enhancement Capital	OMMC	-	1.4	1.3	1.4	1.5	1.8	1.9	9.3
	Investment	OMNR	-	.3	.3	.3	.3	.3	.3	1.8
		PMC	-	3.6	1.3	.7	-	-	-	5.6
		RDTEN	-	.3	-	-	-	-	-	.3
	7. MK-46 Mod Proc.	WPN	-	-	21.4	28.1	26.1	10.0	10.3	95.9
	Subtotal		-7.5	34.2	58.9	73.3	73.1	58.0	33.7	323.7

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AL)	D. Legislative Reforms/ Improved Administration									
	1. Davis-Bacon Act	MCN	-	30.3	-	-	-	-	-	30.3
		MCA	-	20.0	-	-	-	-	-	20.0
		MCAF	-	18.9	-	-	-	-	-	18.9
	Subtotal		-	69.2	-	-	-	-	-	69.2

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AM)	E. Multiyear Contracting									
	1. F-16 Procurement	APAF	-	8.0	84.0	40.0	114.0	-	-	246.0
	2. F-111 Weapon Navigation Computer	APAF	-	-	3.4	6.5	-	-	-	9.9
	3. AN/TRC-170 Radio	APAF	15.0	2.8	1.7	-.8	-	-	-	18.7
	4. AN/ALQ-136 Radio Jammer	APA	-	-	-	-	6.8	3.8	4.1	14.7
	5. Blackhawk Helicopter	APA	-	-	-	81.1	-	-	-	81.1
	6. Multiple Launch Rocket	MPA	-	-	-	-	-	29.6	34.4	64.0
	7. NATO Seasparrow	OPN	-	2.0	5.0	10.0	12.2	8.0	-	37.2
	8. A-6E Procurement	APN	-	-	-	4.0	5.3	5.4	5.6	20.3
	9. EA-6B Procurement	APN	-	-	-	2.4	4.4	6.2	8.1	21.1
	10. C-2A	APN	-	-	16.3	5.5	7.1	16.4	13.1	58.4
	11. CH-53E	APN	-	-	-	8.0	8.8	9.7	8.5	35.0
	12. T-AO	SCN	-	7.7	12.5	46.3	-	-	-	66.5
	13. Standard (SM-1)	WPN	-	-	-	-	-	19.6	43.1	62.7
	14. MK-46 NEARTIP	WPN	-	-	-	11.8	28.6	-	-	40.4
	15. MULE	PMC	-	-	2.1	1.8	1.6	-	-	5.5
	16. NAVSTAR GPS/IONDS	MPAF	-	-	.1	2.0	8.8	90.9	147.5	249.3
	17. Defense Meteorological Satellite	MPAF	-	-	-	-	-	49.3	-	49.3
	Subtotal		15.0	20.5	125.1	218.6	197.6	238.9	264.4	1,080.1

TOA $ Millions Saved February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AP)	F. Economic Production Rates									
	1. AIM-9M Production	MPAF	24.7	19.2	-22.4	16.7	18.2	17.8	-	74.2
	2. E-3A Procurement	APAF	-	78.0	81.0	-	-	-	-	159.0
	3. Accelerate F-15 Buy	APAF	-	30.0	12.6	-	-	-	-	42.6
	4. RF-4 IR Sensor	APAF	-	-	4.6	8.5	-	-	-	13.1
	5. Defense Satellite Program Acquisition	MPAF	-	-	32.0	32.0	-	-	-	64.0
	6. AN/SSQ-47 Sonobuoy	OPN	-			3.2	-	-	-	3.2
	7. AN/BQQ-5	OPN	-	-	-	1.3	-	-	-	1.3
	8. TSEC/KG-45	OPN	-	-	-	-	.1	.3	.4	.8
	9. SH-60B	APN	-	-	-	-	-	26.7	-	26.7
	10. CH-53E	APN	-	-	5.0	5.0	-	-	-	10.0
	11. Common ECM Equipment	APN	-	-	-	-	-	18.5	-	18.5
	12. Aircraft Production Rates	APN	-	281.6	86.2	-	-	-	-	367.8
	13. F-16 Buy Acceleration	APAF	-	-	199.0	197.0	159.0	192.0	-	747.0
	14. Laser Hellfire	MPA	-	11.2	44.3	62.1	39.1	33.1	-	189.8
	15. Fighting Vehicle Systems	WTCV	4.5	40.4	99.9	73.6	17.6	-	-	236.0
	16. DIVAD Gun	WTCV	-	9.7	25.9	42.7	64.0	170.8	-	313.1
	Subtotal		29.2	470.1	568.1	442.1	398.0	459.2	.4	2,267.1

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AX)	G. Elimination/Reduction of Marginal Programs/Systems									
	1. E-4B Procurement	APAF	-	-	278.7	290.8	-	-	-	569.5
	2. EC-135 Airborne Launch Control Systems	APAF	-	10.4	22.8	-	-	-	-	33.2
	3. Titan Missile Phase Out	MPAF	-	31.1	30.1	23.4	21.3	32.7	-	138.6
	4. KC-135	APAF	-	-	-	28.9	68.5	69.6	-	167.0
		RDTEAF	-	-	10.3	15.8	7.9	.9	-	34.8
	5. B-52 Aircraft Modification	APAF	-	-	.1	21.0	45.3	132.5	-	198.9
		RDTEAF	-	-	7.0	15.9	.1	-	-	23.0
		OMAF	-	-	-	.1	1.9	9.4	-	11.4
		MPAF	-	-	-	-1.0	-1.4	-.3	-	-2.7
	6. Minuteman II	MPAF	-	-	-	-	166.0	212.0	-	378.0
	7. Expendable Drones	RDTEAF	-	-	5.1	8.5	6.8	4.3	-	24.7
		MPAF	-	-	26.7	58.1	52.2	86.7	-	223.7
		MCAF	-	-	.2	.1	-	-	-	.3
		OMAF	-	-	.1	.1	.2	.2	-	.6
		MPAF	-	-	.8	.8	.8	.8	-	3.2
	8. Laser Acquisition	OPAF	-	6.6	-	-	-	-	-	6.6
	9. 8" Anti-Radiation Projectile	RDTEA	-	13.0	13.0	19.0	17.0	33.0	41.0	136.0
	10. AN/SPS-52 Radar	OPN	-	-	14.6	15.9	14.2	12.9	13.5	71.1
	11. CHANNEL FINDER	OPN	-	-	-	7.9	7.8	7.7	8.1	31.5
	12. Gun Fire Control Systems	OPN	-	-	24.1	20.3	-	10.5	-	54.9
	13. SMS ORDALTS: TARTER	OPN	-	-	42.6	60.0	26.0	57.9	49.4	235.9
	14. 5" GP	OPN	-	16.5	29.8	86.8	112.8	112.6	158.2	516.7
	15. Advanced Base Function Components	OPN	-	-	10.0	15.0	48.0	41.0	54.0	168.0
	16. Ship Systems Modifications	OPN	-	-	100.6	159.0	-	17.8	164.6	442.0
	17. NOSS	RDTEN	10.7	46.1	87.9	115.7	105.7	74.2	-	440.3

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AX)	G. Elimination/Reduction of Marginal Programs/Systems (Con't)									
	18. Weaponizing Proto	RDTEN	-	2.0	3.0	4.0	6.6	8.2	-	23.8
	19. SOJS (THOR)	RDTEN	-	10.1	22.3	35.6	61.0	76.3	80.5	285.8
	20. CAML	RDTEN	1.7	5.7	5.7	6.7	5.6	.3	.3	25.0
	21. Super Torch	RDTEN	-	3.2	3.2	3.5	3.6	3.6	3.5	20.6
	22. VCX	RDTEN	-	32.6	-	-	-	-	-	32.6
	23. TEWDS	RDTEN	-	8.8	6.9	19.8	24.4	29.5	31.2	120.6
	24. MADAIR	RDTEN	-	2.3	3.7	4.0	4.1	4.1	4.3	22.5
	25. Buried Manhunt	RDTEN	-	1.8	5.0	6.6	6.4	7.9	8.3	36.0
	26. IIR Harpoon	RDTEN	-	38.6	39.8	32.1	23.1	3.6	3.8	141.0
	27. HY 130 Steel	RDTEN	-	-	1.8	-	-	-	-	1.8
	28. MDM	RDTEN	-	.7	38.0	46.0	42.0	38.0	35.0	199.7
	29. RECO	RDTEN	-	-	1.2	3.5	5.9	6.0	5.9	22.5
	30. EMCARD	RDTEN	-	2.4	2.8	3.1	2.7	2.7	2.8	16.5
	31. Mobile Trk Range	RDTEN	-	6.5	4.1	-	-	-	-	10.6
	32. DASS	RDTEN	-	-	3.7	1.4	1.3	.6	.6	7.6
	33. RFX	RDTEN	-	-	17.0	19.0	36.1	35.8	37.8	145.7
	34. Dual Mini Sins	RDTEN	-	1.0	.5	-	-	-	-	1.5
	35. A-6/AWSACS	RDTEN	-	-	22.4	56.1	37.7	8.9	-	125.1
	36. Linear Chair	RDTEN	-	4.0	1.4	-	-	-	-	5.4
	37. VLS ASROC	RDTEN	-	15.3	27.6	20.4	12.7	.5	.5	77.0
	38. AEPS II	RDTEN	-	-	2.7	3.2	3.3	3.6	3.8	16.6
	39. SEAFIRE	RDTEN	-	1.8	17.0	17.5	16.5	7.0	7.3	67.1
	40. FIREBRAND	RDTEN	-	-	23.7	35.0	28.7	20.5	8.9	116.8
	41. CH-46 Ext Tank	RDTEN	-	-	1.2	-	-	-	-	1.2
	42. PCOTES	RDTEN	-	5.0	5.0	-	-	-	-	10.0
	43. LINEAR ECM	RDTEN	-	-	7.9	3.7	3.1	-	-	14.7
	44. Navy Future Comm	RDTEN	-	2.7	5.0	5.9	6.2	6.9	7.2	33.9
	45. SXTF Closed	RDTEDA	-	18.1	22.6	14.2	5.7	5.5	-	66.1
	46. Navy OSHA	MCN	-	-	11.0	14.0	13.8	6.0	6.0	50.8
		OPN	-	3.5	3.0	3.0	3.0	3.0	3.0	18.5
		OMN	-	2.5	3.0	3.0	3.0	3.0	3.0	17.5

TOA $ Millions Saved

February 8, 1982

Code	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
(AX)	G. Elimination/Reduction of Marginal Programs/Systems (Con't)									
	47. H-46 Emergency Egress Mod	APN	-	-	1.7	1.9	.9	.1	-	4.6
	48. H-46 AAR Mod	APN	-	-	1.4	3.6	5.8	11.0	.5	22.3
	49. H-46 Ground Prox Modification	APN	-	-	-	5.6	5.8	3.6	-	15.0
	50. S-3 Ejection Seat Modification	APN	-	-	-	-	2.1	2.1	1.9	6.1
	51. S-3 IFR Probe Modification	APN	-	-	1.7	1.7	-	-	-	3.4
	52. S-3 TACAN EXCAP Modification	APN	-	-	1.2	2.2	1.1	1.1	-	5.6
	53. P-3 TACNAV Mod	APN	-	-	30.9	22.1	5.3	.3	-	58.6
	54. 25 mm Gun Pod Mod	APN	-	-	-	8.9	33.6	64.6	-	107.1
	55. ECM(ALR-45) Mod	APN	-	-	36.3	36.8	-	-	-	73.1
	56. H-46 Fuel Tanks Modification	APN	-	-	-	-	6.9	7.3	.8	15.0
	57. F-4, APR-43 Modification	APN	-	-	4.8	6.0	1.1	.6	-	12.5
	58. F-4, APR-118 Modification	APN	-	-	3.5	2.4	.8	.4	-	7.1
	59. A-6 (AWSACS)	APN	-	-	-	-	4.9	107.7	101.7	214.3
	60. P-3C(Multi-Signal/ BITE)	APN	-	-	5.7	5.6	4.9	3.9	-	20.1
	Subtotal		12.4	292.3	1,103.9	1,420.2	1,130.7	1,400.6	847.4	6,207.5

TOA $ Millions Saved

February 8, 1982

Code (AU)	I. ACQUISITION INITIATIVES	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY1985	FY 1986	FY 1987	Total
	H. Other Acquisition Improvements									
	1. Service Contract Limitations	OMAF	-	4.4	4.7	4.9	5.1	5.3	5.5	29.9
	2. Contract Consolidation	OMAF	.1	.1	.1	.1	.1	.1	.1	.7
	3. SH-2F Contract	APN	-	38.7	-	-	-	-	-	38.7
	4. COMSEC Mod. (NSA)	Various	-	-	2.0	2.0	1.5	1.0	1.0	7.5
	5. Engineering Improvements (NSA)	RDTEDA	-	-	1.0	2.0	2.0	1.0	1.0	7.0
	6. Joint Electronics Equip. (NSA)	Various	-	-	10.0	25.5	25.5	25.5	25.5	112.0
	7. DIA Headquarters Building	MCDA	-	1.0	-	-	-	-	-	1.0
	8. Pharmacy System (MIS)	OMDA	.1	-	-	-	-	-	-	.1
	9. CAPOC Cardiology (MIS)	OMDA	.1	-	-	-	-	-	-	.1
	10. Compressed Admin Leadtime	ASF	-	-	80.8	124.0	-	-	-	204.8
		DSF	-	-	37.0	87.5	-	-	-	124.5
		AFSF	-	-	20.0	50.0	-	-	-	70.0
	11. Ammo Acquisition Efficiencies	PAA	-	-	26.9	45.0	81.0	99.0	121.0	372.9
		PMC	-	-	4.5	4.5	-	-	-	9.0
		OPN	-	-	1.7	2.7	-	-	-	4.4
	12. E-3A Procurement of Radar as GFE	APAF	-	4.2	-	2.1	9.0	16.0	20.0	51.3
	13. F-15 Procurement of Radar as GFE	APAF	-	-	7.9	12.0	20.2	21.3	22.3	83.7
	14. E-3A Procurement of Consoles as GFE	APAF	-	-	.6	.7	.6	.6	.4	2.9
	15. Delete TR-1 Interior Antenna	APAF	-	-	11.1	-	-	-	-	11.1
	16. Army Stock Fund	ASF	-	71.4	-	-	-	-	-	71.4
	17. CVN Procurement	SCN	-	-	-	122.7	-	631.0	-	753.7
	18. Reduced Production Leadtime	AFSF	-	172.1	216.7	-	-	-	-	388.8
	Subtotal		.3	291.9	425.0	485.7	145.0	800.8	196.8	2,345.5

February 8, 1982

TOA $ Millions Saved by Category

Code	II. OPERATIONS	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	TOTAL
OL	A. Logistics Improvements	62.7	31.9	99.3	177.7	133.0	164.9	197.5	807.0
OM	B. Eliminate/Reduce Marginal Equip.	.1	-	11.7	11.7	11.8	11.9	12.0	59.2
OX	C. Eliminate/Reduce Marginal Programs/Systems	37.6	206.1	140.9	137.6	148.2	139.9	128.7	939.0
OB	D. Base Realignments	34.3	77.9	56.0	65.1	65.2	65.3	65.4	429.2
OS	E. Base Support Consolidations/ Reductions	-	51.2	47.5	50.7	50.8	50.9	51.1	302.2
OA	F. Administrative Overhead	78.3	407.7	368.5	489.6	410.0	419.9	429.2	2,603.2
OP	G. Increased Productivity	5.3	120.6	131.1	138.2	142.2	143.5	147.1	828.0
OO	H. Other Operations Improvements	42.0	45.3	94.5	141.2	167.7	183.9	210.7	885.3
	TOTAL	260.3	940.7	949.5	1,151.8	1,128.9	1,180.2	1,241.7	6,853.1

TOA $ Millions Saved February 8, 1982

Code (OL)	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
	A. Logistics Improvements									
	1. Consolidation of Spares	OPAF	30.0	-	-	-	-	-	-	30.0
		APAF	30.0	-	-	-	-	-	-	30.0
	2. F-100 Engine Component Repair	OMAF	-	2.1	2.3	2.3	2.4	2.6	2.7	14.4
	3. Organic Repair AN/TPN-19	OMAF	-	-	3.6	3.7	4.0	4.3	4.6	20.2
	4. Depot Maint. I.F.	OMAF	-	-	56.0	29.0	31.0	33.0	35.0	184.0
	5. Air Res. Log. Support	OMAFR	2.7	2.8	3.2	3.4	3.6	3.8	3.9	23.4
	6. Improved Supply Disciplines	OMA	-	17.0	17.0	17.0	17.0	17.0	17.0	102.00
	7. Maint. Cost Reduction	OMA	-	10.0	10.0	10.0	10.0	10.0	10.0	60.0
	8. Retail Inventory Management Stockage Policy (RIMSTOP)	OMA	-	-	4.2	8.5	5.6	5.7	5.8	29.8
		APA	-	-	1.0	1.5	1.0	1.0	.9	5.4
		MPA	-	-	.3	.5	.3	.4	.4	1.9
		OPA	-	-	1.2	2.3	1.6	1.7	1.8	8.6
		WTCV	-	-	.9	1.1	.6	.5	.5	3.6
	9. Life Cycle Logistics	OMA	-	-	-	-	-	-	10.0	10.0
		APA	-	-	-	-	-	-	4.9	4.9
		MPA	-	-	-	-	-	-	4.9	4.9
		OPA	-	-	-	-	-	-	5.0	5.0
		WTCV	-	-	-	-	-	-	4.9	4.9
	10. CARI Program	OMN	-	-	2.5	2.6	2.7	2.9	3.0	13.7
	11. CONTRUCK	OMN	-	1.6	1.6	1.7	1.7	1.8	1.9	10.3
	12. Transfer of Consumable Item Mgt.	OMN	-	.2	3.6	3.6	3.6	3.6	3.6	18.2
		OMA	-	3.1	12.3	12.3	12.3	12.3	12.3	64.6
		OMAF	-	1.5	8.8	8.8	8.8	8.8	8.8	45.5
		OMMC	-	-	.2	.2	.2	.2	.2	1.0
	(DLA)	OMDA	-	-6.4	-9.9	-9.9	-9.9	-9.9	-9.9	-55.9
	13. Consolidation of Property Shipping Ofc	OMA	-	-	2.1	.8	.8	.8	.8	5.3
		OMAF	-	-	2.0	.8	.8	.8	.8	5.2
	14. Sealift Cargo Booking	OMA	-	-	1.0	1.0	1.0	1.0	1.0	5.0
		OMN	-	-	.3	.3	.3	.3	.3	1.5
		OMAF	-	-	.2	.2	.2	.2	.2	1.0

TOA $ Millions Saved February 8, 1982

Code (UL)	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
	A. Logistics Improvements (Cont'd)									
	15. MSC/MTMC Consolidation	OMA	-	-	-	2.0	2.0	2.0	2.0	8.0
		OMN	-	-	-	7.0	7.0	7.0	7.0	28.0
		OMAF	-	-	-	1.0	1.0	1.0	1.0	4.0
	16. Automated Markings (LOGMARS)	OMA	-	-	-	7.7	14.3	20.8	20.8	63.6
		OMN	-	-	.3	3.7	7.4	8.9	8.9	29.2
		OMAF	-	-	-	9.5	14.0	14.0	14.0	51.5
		OMMC	-	-	-	6.7	6.7	6.9	7.0	27.3
		OMDA	-	-	-	.1	.2	1.5	1.5	3.3
		OPA	-	-	-5.4	-5.4	-5.5	-	-	-16.3
		OPN	-	-	-5.6	-7.0	-8.0	-	-	-20.6
		OPAF	-	-	-9.8	-4.6	-.9	-	-	-15.3
		PMC	-	-	-.8	-.9	-1.1	-	-	-2.8
		PDA	-	-	-3.8	-3.8	-3.7	-	-	-11.3
	Subtotal		62.7	31.9	99.3	117.7	133.0	164.9	197.5	807.0

TOA $ Millions Saved February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(OM)	B. Eliminate/Reduce Marginal Equipment									
	1. Furniture	OMN	-	-	1.7	1.7	1.8	1.9	2.0	9.1
	2. Ammo Demil	OMA	-	-	10.0	10.0	10.0	10.0	10.0	50.0
	3. DIS Purchase	OMDA	.1	-	-	-	-	-	-	.1
	Subtotal		.1	-	11.7	11.7	11.8	11.9	12.0	59.2

TOA $ Millions Saved February 8, 1982

Code (UX)	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
	C. Eliminate/Reduce Marginal Programs									
	1. Reduce Dumptruck Procurement	OPA	-	7.2	-	-	-	-	-	7.2
	2. Reduce Welding Shop Procurement	OPA	-	5.6	-	-	-	-	-	5.6
	3. Delay Proc. of Elec. Equip. Rpr. Shop	OPA	-	4.7	-	-	-	-	-	4.7
	4. Curtail Mod. of M-113	WTCV	-	9.2	-	-	-	-	-	9.2
	5. Curtail Mod. of M-110	WTCV	-	6.0	-	-	-	-	-	6.0
	6. Reduction in NG Trng	NGPA	-	7.0	-	-	-	-	-	7.0
	7. NG Operating Support	OMARNG	-	18.8	1.6	1.6	1.6	1.6	1.6	26.8
	8. Reserve Training	RPA	-	5.0	-	-	-	-	-	5.0
	9. Marginal Prog. Reduc.	OMA	37.0	60.0	60.0	60.0	60.0	60.0	60.0	397.0
	10. Subsistence Allowance	MPA	-	2.0	2.0	2.0	2.0	2.0	2.0	12.0
	11. NG Participation on RC Infantry	NGPA	-	-	.2	.2	.2	.2	.2	1.0
	12. Cancel Second Recruiting Center	MCA	-	-	3.0	-	-	-	-	3.0
	13. DD Retirements	OMNR	-	-	3.6	-	-	-	-	3.6
		OMN	-	8.7	12.4	14.2	23.0	13.0	-	71.3
	14. Pollution Abatement	OMN	-	15.0	14.0	14.7	15.4	16.0	16.8	91.9
	15. Service Contracts (NSA)	OMDA	.5	.5	.5	.5	.5	.5	.5	3.5

TOA $ Millions Saved February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(OX)	C. Eliminate/Reduce Marginal Programs (Cont'd)									
	16. Audiovisual Act. (AFIS)	OMDA	.1	.1	.1	.1	.1	.1	.1	.7
	(DLA)	OMDA	-	.1	.1	.1	.1	.1	.1	.6
	(DAVA)	OMDA	-	1.4	1.5	1.5	1.6	1.6	1.7	9.3
		OMA	-	14.0	12.7	12.7	12.7	12.7	12.7	77.5
		OMAF	-	5.6	5.9	6.2	6.5	6.8	7.1	38.1
		OMN	-	7.1	5.2	5.4	5.7	6.0	6.2	35.6
		OMMC	-	.7	.7	.7	.7	.7	.7	4.2
		OMNR	-	.1	.1	.1	.1	.1	.1	.6
		OPN	-	1.8	.7	.7	.7	.8	.8	5.5
		RDTEN	-	1.2	.2	.2	.2	.2	.2	2.2
		MPN	-	2.7	2.7	2.7	2.7	2.7	2.7	16.2
		MPMC	-	.7	.7	.7	.7	.7	.7	4.2
		OMAFR	-	.1	.1	.1	.1	.1	.1	.6
		OMANG	-	.3	.4	.4	.4	.4	.4	2.3
		RDTEAF	-	4.2	4.4	4.6	4.9	5.2	5.4	28.7
		OPAF	-	3.3	3.4	3.5	3.6	3.7	3.9	21.4
		MPAF	-	4.5	4.5	4.5	4.5	4.5	4.5	27.0
	17. OSHA	OMAF	-	8.5	-	-	-	-	-	8.5
	18. MAC Commercial Gateway	OMAF	-	-	.2	.2	.2	.2	.2	1.0
	Subtotal		37.6	206.1	140.9	137.6	148.2	139.9	128.7	939.0

TOA $ Millions Saved

February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(08)	D. Base Realignments									
	1. Civilian Personnel Base Realignment	OMAF	-	30.3	-	-	-	-	-	30.3
	2. Air-630	OMN	-	.2	.2	.2	.2	.2	.2	1.2
	3. EUCOM HQ Colocation	OMA	-	11.0	11.0	11.0	11.0	11.0	11.0	66.0
	4. USUT at Ft Bliss TX	MPA	4.1	4.1	4.1	4.1	4.1	4.1	4.1	28.7
		OMA	.6	.6	.6	.6	.6	.6	.6	4.2
	5. Long Range Signal/ Training(Ft. Gordan)	OMA	-	.3	.5	.5	.5	.5	.5	2.8
		MPA	2.3	2.6	2.6	2.6	2.6	2.6	2.6	17.9
		OPA	-.3	-	-	-	-	-	-	-.3
	6. ADA Realignment	OMA	6.5	6.5	6.5	6.5	6.5	6.5	6.5	45.5
		FHMA	1.6	1.6	1.6	1.6	1.6	1.6	1.6	11.2
		MPA	17.8	17.8	17.8	17.8	17.8	17.8	17.8	124.6
	7. US Army News Release Center	MPA	.1	.1	.1	.1	.1	.1	.1	.7
		OMA	.3	.3	.3	.3	.3	.3	.3	2.1
	8. Chaplain School	OMA	.9	.9	.9	.9	.9	.9	.9	6.3
		FHMA	.4	.4	.4	.4	.4	.4	.4	2.8
		MPA	.2	.2	.2	.2	.2	.2	.2	1.4
	9. Philadelphia Outport	MPA	.1	.1	.1	.1	.1	.1	.1	.7
		OMA	.3	.3	.3	.3	.3	.3	.3	2.1
	10. St Louis Pub AG Center	OMA	.6	.6	.6	.6	.6	.6	.6	4.2
	11. Ft. McArthur CA	OMA	-	-	.3	.4	.4	.4	.4	1.9
		OMAR	-	-	.8	1.9	2.0	2.1	2.2	9.0
		FHMA	-	-	-	.1	.1	.1	.1	.4
		MCAR	-2.2	-.2	-	-	-	-	-	-2.4
		MPA	-	-	-	.1	.1	.1	.1	.4
	12. Ft. Kamehameha	OMA	.3	.3	.3	.3	.3	.3	.3	2.1
		MPA	.1	.1	.1	.1	.1	.1	.1	.7
	13. Consol. of Fin. & Acct. MTMC	OMA	.3	.3	.3	.3	.3	.3	.3	2.1
	14. District Recruit Ctr (Niagra)	OMA	.1	.1	.1	.1	.1	.1	.1	.7
		MPA	.2	.2	.2	.2	.2	.2	.2	1.4
	15. AA West District (Redwood Cty)	OMA	-	-	-	.1	.1	.1	.1	.4
	16. New Cumberland Army Depot	MPA	-	-	.2	.3	.3	.3	.3	1.4
		OMA	-	-	5.9	13.4	13.4	13.4	13.4	59.5
		MCA	-	-.8	-	-	-	-	-	-.8
	Subtotal		34.3	77.9	56.0	65.1	65.2	65.3	65.4	429.2

TOA $ Millions Saved February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(US)	E. Base support Consolidation/Reduction								
	1. Civilian Personnel								
	Base Realignment	RDTEAF	3.8	-	-	-	-	-	3.8
		OMAFR	1.9	1.9	2.0	2.1	2.2	2.3	12.4
		OMANG	4.0	-	-	-	-	-	4.0
	2. Realigned Ops. AFCC	OMAF	1.6	1.6	1.6	1.6	1.6	1.6	9.6
		MPAF	3.7	-	-	-	-	-	3.7
	3. Commercial Activities	OMA	5.0	-	-	-	-	-	5.0
	4. Other Engineer Support	OMA	20.0	-	-	-	-	-	20.0
	5. Telcom Centers	OMA	2.0	3.8	4.8	4.8	4.8	4.8	25.0
	6. Defense Retail Inter-	OMA	-	10.0	10.0	10.0	10.0	10.0	50.0
	service Support (DRIS)	OMN	-	10.0	10.0	10.0	10.0	10.0	50.0
		OMAF	-	10.0	10.0	10.0	10.0	10.1	50.1
	7. MRRP Contract Admin.	OMN	7.2	-	-	-	-	-	7.2
	8. Commissary Store Employ.	OMN	2.0	10.0	12.0	12.0	12.0	12.0	60.0
	9. DoD Computer Institute	MPN		.2	.3	.3	.3	.3	1.4
Subtotal			51.2	47.5	50.7	50.8	50.9	51.1	302.2

TOA $ Millions Saved   February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(OA)	F. Administrative Overhead									
	1. Consulting and Related Services	OPAF	-	1.9	-	-	-	-	-	1.9
		OMAF	-	22.6	22.4	23.5	24.6	25.7	26.5	145.3
		RDTEAF	-	17.9	-	-	-	-	-	17.9
		OMAFR	-	.2	.2	.2	.2	.2	.2	1.2
		OMANG	-	.2	.2	.2	.2	.3	.3	1.4
		OMA	6.3	23.5	23.5	23.5	23.5	23.5	23.5	147.3
		OMN	12.0	123.2	126.8	185.5	194.0	202.7	211.6	1,055.8
		OMMC	.2	.5	5.8	6.1	6.3	6.6	6.8	32.3
		OMNR	.1	.1	1.0	1.0	1.1	1.1	1.1	5.5
		APN	.8	6.8	3.0	3.0	-	-	-	13.6
		WPN	.2	.4	-	-	-	-	-	.6
		SCN	1.4	16.5	5.0	5.0	-	-	-	27.9
		OPN	.5	4.0	1.0	1.0	-	-	-	6.5
		PMC	-	.1	-	-	-	-	-	.1
		RDTEN	11.9	47.3	34.0	84.0	-	-	-	177.2
		RDTEA	1.4	6.9	6.9	6.9	6.9	6.9	6.9	42.8
		WTCV	1.2	6.0	-	-	-	-	-	7.2
		OPA	.1	.5	1.3	-	-	-	-	1.9
	(DCA)	RDTEDA	1.9	3.0	-	-	-	-	-	4.9
	(DCA)	OMDA	.3	.4	10.7	11.7	12.8	13.9	15.0	64.8
	(OEA)	OMDA	-	.3	.3	.3	.3	.3	.3	1.8
	2. Travel Reduction	OMAF	-	42.8	42.8	44.9	47.0	49.1	51.2	277.8
		RDTEAF	-	.2	-	-	-	-	-	.2
		RPAF	-	.3	-	-	-	-	-	.3
		OMAFR	-	.1	.1	.1	.1	.1	.1	.6
		OMANG	-	.2	.2	.2	.2	.3	.3	1.4
		OMA	29.5	29.5	29.5	29.5	29.5	29.5	29.5	206.5
		OMN	2.9	9.3	9.9	10.2	10.5	10.7	11.0	64.5
		OMMC	.5	.6	.6	.6	.6	.6	.6	4.1
		OMNR	.1	.1	.1	.1	.1	.1	.1	.7
		OMMCR	.2	.1	.1	.1	.1	.1	.1	.8
		RPN	-	.7	.7	.7	.7	.7	.7	4.2
		RPMC	.1	.3	.3	.3	.3	.3	.3	1.9

TOA $ Millions Saved

February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(OA)	F. Administrative (Cont'd)									
	2. Travel (Cont'd)	RDTEN	-	.2	-	-	-	-	-	.2
	(DIS)	OMDA	-	.1	-	-	-	-	-	.1
	(DAS)	OMDA	.1	.1	.1	.1	.1	.1	.1	.7
	(DIA)	OMDA	.3	.1	.1	.1	.1	.1	.1	.9
	(DCA)	OMDA	.4	-	-	-	-	-	-	.4
	(USD)	OMDA	1.0	1.0	1.0	1.0	1.0	1.0	1.0	7.0
	(DLA)	OMDA	.3	.5	.5	.5	.5	.5	.5	3.3
		RDTEA	2.8	2.8	-	-	-	-	-	5.6
		OMAR	.3	.3	.3	.3	.3	.4	.4	2.3
		NGPA	.4	-	-	-	-	-	-	.4
		RPA	.9	-	-	-	-	-	-	.9
	3. Headquarters Mgt.	OMAF	-	7.4	11.6	11.6	11.6	11.6	11.6	65.4
		RDTEAF	-	.6	-	-	-	-	-	.6
		RPAF	-	.4	-	-	-	-	-	.4
		OMAFR	-	.2	.2	.2	.2	.2	.2	1.2
		OMANG	-	.2	.2	.2	.2	.2	.2	1.2
		NGPAF	-	.2	.4	.4	.4	.4	.4	2.2
		MPAF	-	11.2	-	-	-	-	-	11.2
	4. Admin. Use Vehicles	OMA	-	6.0	15.0	18.0	18.0	14.0	10.0	81.0
	5. Buy vs. Lease ADP	OMN	-	-	3.0	3.1	3.0	3.1	3.0	15.2
		OPN	-	-	-5.6	-	-	-	-	-5.6
	6. Fiscal Intermediary Contract (CHAMPUS)	OMDA	-	2.0	-	-	-	-	-	2.0
	7. Reorganization				-	-				
	(CHAMPUS)	OMDA	.2	.2	.2	.2	.2	.2	.2	1.4
	8. ADP Lease (DCA)	OMDA	-	-	.1	.3	.4	.4	.4	1.6
	9. Efficiency Review (DCA)	OMDA	-	2.0	-	-	-	-	-	2.0
	10. Dining Hall Controls	MPA	-	3.1	7.4	7.4	7.4	7.4	7.4	40.1
		MPN	-	.9	2.0	2.0	2.0	2.0	2.0	10.9
		MPMC	-	.9	2.5	2.5	2.5	2.5	2.5	13.4
		MPAF	-	.8	1.4	1.4	1.4	1.4	1.4	7.8
	11. Central Applicant Supply System (DLA)	OMDA	-	-	.7	.7	.7	.7	.7	3.5
	12. Reorganization of Centralized Referral Activity (DLA)	OMDA	-	-	1.0	1.0	1.0	1.0	1.0	5.0
Subtotal			78.3	407.7	368.5	489.6	410.0	419.9	429.2	2,603.2

TOA $ Millions Saved

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Code (OP)	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
	G. Increased Productivity/ Personnel Efficiency									
	1. Capital Investment Savings (AF)	OMAF	-	24.0	25.5	26.7	28.0	29.2	30.5	163.9
		RDTEAF	-	2.6	-	-	-	-	-	2.6
		OMAFR	-	1.3	1.3	1.4	1.5	1.5	1.6	8.6
		OMANG	-	3.1	-	-	-	-	-	3.1
	2. Productivity Savings	OMA	-	38.7	38.7	38.7	38.7	38.7	38.7	232.2
	3. PACE	OMA	-	1.3	8.1	9.8	10.0	10.3	10.5	50.0
	4. Video Conferencing	OMA	-	-	.2	.2	.2	.2	.2	1.0
	5. Centralized Mgt.of Conventional Ammo	PAA	-	-	6.0	10.0	12.0	12.0	12.0	52.0
	6. OSD Productivity Investment Program Army	MCA	-	-	1.8	-	-	-	-	1.8
	7. Source Data Automation Network	OMN	-	.6	.6	.6	.6	.7	.7	3.8
	8. Music Program	OMN	-	.1	.1	.1	.1	.1	.1	.6
		MPN	-	.1	.1	.1	.1	.1	.1	.6
	9. Recruiting and Advertising	OMN	-	11.0	8.7	9.1	9.5	10.0	10.4	58.7
		OMARNG	-	1.0	1.0	1.0	1.0	1.0	1.0	6.0
		OMA	-	9.0	9.0	9.0	9.0	9.0	9.0	54.0
	10. Military Pay Systems	OMN	-	.8	1.2	1.3	1.3	1.4	1.4	7.4
	11. Joint Recruiting and Advertising Program	OMN	-	2.4	2.4	2.5	2.6	2.7	2.9	15.5
		OMMC	-	1.7	1.7	1.7	1.7	1.7	1.7	10.2
		OMA	-	6.7	7.1	7.1	7.1	7.1	7.1	42.2
		OMAF	-	1.6	1.6	1.6	1.6	1.6	1.6	9.6
		OMDA	-	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2	-49.2
	12. Recruiting Data Systems	OMN	-	.1	.1	.1	.1	.1	.1	.6
	13. Underutilized Computers	OMN	-	.4	.7	.7	.8	.8	.8	4.2
	14. Medical Program	OMN	-	-	.1	.1	.1	.1	.1	.5
	15. NAESU Batch Processing	OMN	-	-	.3	.3	.3	.3	.3	1.5
	16. ADP VAX Main Frame	OMN	-	-	1.1	1.2	1.3	1.3	1.4	6.3
		OPN	-	-	-.5	-	-	-	-	-.5

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TOA $ Millions Saved

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(OP)	G. Increased Productivity/ Personnel Efficiency (Con't)									
	17. Computer Operations (USUHS)	OMDA	-	.1	.1	.1	.1	.1	.1	.6
	18. Library Personnel (USUHS)	OMDA	-	-	.1	-	-	.1	-	.2
	19. Productivity	OMAR	-	1.3	1.3	1.4	1.5	1.5	1.6	8.6
	(DLA)	OMDA	-	15.6	15.6	15.6	15.6	15.6	15.6	93.6
	(DMA)	OMDA	-	2.9	2.7	2.8	2.4	1.3	2.6	14.7
	20. Computer Ops. (DMA)	OMDA	5.3	2.4	2.3	2.9	2.9	2.9	2.9	21.6
	21. Personnel Efficiencies (DMA)	OMDA	-	-	.3	.3	.3	.3	.3	1.5
Subtotal			5.3	120.6	131.1	138.2	142.2	143.5	147.1	828.0

TOA $ Millions Saved

February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(00)	H. Other Operations Improvements									
	1. Energy Conservation	OMAF	-	-27.9	2.4	4.4	8.9	12.7	16.9	17.4
	(DNA)	OMDA	-	.1	.1	.1	.1	.1	.1	.6
	(USUHS)	OMDA	-	.1	.1	-	.1	-	.1	.4
		OMA	37.6	50.2	61.5	68.5	80.1	97.1	115.3	510.3
		FHN	-	-	-	1.4	1.4	1.4	1.4	5.6
		FHAF	-	-	-	1.9	1.9	1.9	1.9	7.6
		FHA	-	-	-	9.9	9.9	9.9	9.9	39.6
		MCA	-	-	11.8	31.1	31.1	11.8	11.8	97.6
		MCANG	-	.8	-	-	-	-	-	.8
	2. Reuse of Materials	RDTEAF	.1	-	-	-	-	-	-	.1
	3. Reuse of Surplus Equip.	RDTEAF	1.6	-	-	-	-	-	-	1.6
	4. Implementation of Audit Recommendations (Navy)	OMN	-	.5	7.1	7.4	7.8	8.1	8.5	39.4
		OMMC	-	1.2	.3	.3	.3	.3	.3	2.7
		WPN	-	-	2.5	-	-	-	-	2.5
		MCN	-	-	1.4	-	-	2.2	-	3.6
	5. NFC Cleveland Computers	OMN	-	.9	.9	.9	1.0	1.0	1.1	5.8
	6. Military Records Maint.	OMN	-	.1	.2	.2	.2	.2	.2	1.1
	7. Consolidated TCP MGT (NSA)	OMDA	-	-	1.5	1.4	1.4	1.4	1.4	7.1
	8. Satellite Broadcasts (AFIS)	OMDA	-	-	2.2	2.2	2.2	2.2	2.2	11.0
	9. Commercial Satellite	OMA	-	-	.4	1.7	3.6	5.4	6.0	17.1
	Broadcasts	OMN	-	-	.4	1.7	3.6	5.4	6.0	17.1
		OMAF	-	-	1.2	5.1	10.8	16.4	17.9	51.4

TOA $ Millions Saved

February 8, 1982

Code	II. OPERATIONS	Appn.	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	Total
(00)	H. Other Operations									
	10. Satellite Activity (AFIS)	OMDA	-	-	-	2.4	-	-	-	2.4
	11. Microwave Circuiting (AFIS)	OMDA	-	-	-	-	2.6	2.6	2.6	7.8
	12. AFRTS Consolidated Facilities (AFIS)	OMDA	-	-	-	-	-	3.1	3.1	6.2
	13. Service Contracts (AFIS)	OMDA	-	-	-	-	-	-	3.3	3.3
	14. Admin. Support (USUHS)	OMDA	-	-	.1	.2	.2	.2	.2	.9
	15. Motion Media Depository Consolidation (DAVA)	OMDA	-	.2	.2	.2	.2	.2	.2	1.2
	16. Still Media Depository Consolidation (DAVA)	OMDA	-	.1	.1	.1	.2	.2	.2	.9
	17. Recycling and Reuse (DAVA)	OMDA	.1	.1	.1	.1	.1	.1	.1	.7
	18. Use of Public Health Service Clinic Program	MCA	2.6	-	-	-	-	-	-	2.6
	19. Accomplish ROLAND Maint. in nondedicated facility	MCA	-	7.6	-	-	-	-	-	7.6
	20. Reduction in Housing Consolidation Cost	MCA	-	2.2	-	-	-	-	-	2.2
	21. Less-Extensive Facility Improvement	MCAF	-	5.0	-	-	-	-	-	5.0
	22. Rehab vs. New Construction of Housing	MCAF	-	4.1	-	-	-	-	-	4.1
Subtotal			42.0	45.3	94.5	141.2	167.7	183.9	210.7	885.3

Senator Symms: Describe how unit costs in weapons procurement will rise with defense spending cuts?

Answer: Spending reductions would be accommodated by program stretch-outs, deferring new program starts, and program terminations, all of which will increase life cycle costs.

DoD will realize substantial savings in acquisition programs by increasing procurement quantities to obtain maximum production efficiencies. This is evidenced in unit cost reductions in several aircraft and missile programs which were documented in the Economies and Efficiencies Report. These increased quantities made establishment of competitive second sources feasible, permitted greater production efficiencies and resulted in more favorable vendor pricing. Reducing annual procurement quantities will reverse these efficiencies with a concomitant increase in unit costs.

Deferring new starts is also counterproductive in managing efficient acquisition programs since the resulting gap between development and production will result in the loss of trained personnel, generate start-up costs, and subject the program to another year of escalation.

The most serious alternative to accommodate spending reductions is program termination, which has cost increases that are not readily apparent. For example, many new weapon systems are actually replacements for obsolescent, less efficient systems. Termination of the new weapon necessitates retention of these older systems which generally require more man power to operate, have higher maintenance costs, and provide less operational availability.

Western Credits to the U.S.S.R.

Senator Symms: Mr. Secretary, should the U.S. subsidize the Soviet military buildup through trade financed with Western credit, if as a result we are forced to dramatically increase U.S. defense spending?

Answer: The overriding objective for East-West economic policy is to improve the security of the Alliance, to preserve peace, to enhance the prospects for genuine arms control. To this end, we must curb the net flow of resources into the Soviet bloc, to let the inherent weakness of the Communist economic system take its course and thus constrain the Soviet military buildup.

Inflation & Defense Spending

Senator Symms: 9) What is the effect of defense spending upon inflation and interest rates?

10) Many defense experts have described the present Soviet threat to America as being greater than the danger we faced from German and Japanese aggression in 1941. And as a percentage of GNP, U.S. defense spending is also as low as it was in 1941. Given the severity of the threat, can we afford to cut defense spending now?

11) The JCS Posture Statement for Fiscal Year 1983 states soberly that "U.S. and allied security interests are challenged today by threats of unprecedented scope and urgency." What are the full implications of this statement for the defense budget?

Answer 9: Substantial portions of this budget request will be from industries now experiencing slack capacity. As slack industries get up to efficient utilization levels, the entire economy benefits from increased productivity. Further investment is stimulated with minimal effect on inflation. We don't find a direct cause and effect relationship between defense expenditures and the interest rate, which is more directly a function of the money supply. The economy is adjusting to higher interest rates, to the real cost of money, rather than living off constantly rising price levels. As that adjustment continues, and investment and productivity increases follow, we expect to see some improvements in interest rates, as well as in inflation.

Answer 10: The touchstone for determining the adequacy of U.S. and allied defense plans and programs is whether these programs would put us in a position to defeat attacks on ourselves or essential allied interests wherever these interests are forcibly challenged. We are concerned with the potential courses and consequences of a variety of plausible conflicts that may threaten our interests or those of our allies. Existing forces inherited from past military programs, and forces on the side of our potential enemies are clearly the major determinants of the outcomes of such conflicts in the near future. The Department of Defense budget was prepared to meet and overcome this threat. To further reduce this budget is to ignore the nature of the threat and would jeopardize our ability to respond.

Answer 11: The Soviet Union poses a greater danger to the American people than any other foreign power in our history. Only the Soviet Union has the power to inflict tens of millions of casualties on our population. Only the Soviet Union has massive and modern conventional and nuclear forces deployed, directly confronting our friends and allies in Europe and Asia. Only the Soviet Union has the forces and geographic proximity to threaten the free world's major source of energy. And the Soviet Union is embarked on a sustained effort to encourage and arm totalitarian forces in various parts of the world, so as to expand its political influence and military reach. This budget reflects our assessment of the threat.

Budget Cuts

Senator Tower: Mr. Secretary, your prepared statement addresses the various procurement reform initiatives you have undertaken in this budget, and discusses the savings that would occur. If this budget is significantly cut back, what would be the effect on your procurement reform initiatives? Wouldn't a smaller defense budget this year end up costing us more in the outyears? Isn't it really penny-wise but pound-foolish to cut the defense budget this year?

Answer: We do not know if it would be "penny-wise" but it would be "pound-foolish." If programs are delayed, as has often been the case with past administrations, their costs will surely increase from todays estimate. This budget was submitted as our best estimate of the cost required to counter the threat we are facing, and represents the vital second 12-month increment of this Administrations plan to rearm America.

Senator Tower: Mr. Secretary, what are the primary factors that influence the DoD's level of unobligated funds? More procurement contracts (which spend at a lower rate)? Full-funding policies? Late appropriation bills?

Answer: All three of the items you mention would be factors contributing to the level of unobligated funds. The primary reason is the marked acceleration in the investment accounts which, as you indicate, obligate and spend at a slower rate than operations or research and development. Also, the Procurement Title is budgeted on the full funding policy which has been endorsed by the Congress, the General Accounting Office and the Office of Management and Budget. This policy adds to the unobligated balances as the program content of our program shifts toward the investment area.

Senator Tower: Mr. Secretary, suggestions have been made by some that a high level of unobligated funds could be applied toward the current budget year. Is this an acceptable accounting procedure? How can we pay for new initiatives if funds have previously been authorized for other purposes? Doesn't this amount to spending the same money twice?

Answer: The vast majority of unobligated funds represents financial resources previously appropriated by the Congress for programs still to be placed on contract. The length of time these funds remain unobligated depends on the actions necessary to execute the contract. Congress has recognized the time it takes to obligate funds for the different types of programs: Procurement - 3-5 years; RDT&E - 2 years; O&M, and Pay accounts - 1 year. Accordingly, as long as the programs remain viable, unobligated funds are committed toward their execution.

There are a few cases where program reductions occur subsequent to the appropriation of funds. For these cases, the unobligated amounts are used to finance other high priority programs. This type usage of unobligated balances is an acceptable reprograming/transfer and accounting procedure. If unobligated balances were just applied toward the current budget, it would be in effect, trying to spend the money twice. However, funds can, of course, only be spent once. The funds are either spent to pay the bills for obligations incurred for the program previously authorized or spent subsequent to the transfer of the funds to other programs.

Question:

Mr. Secretary, last week, in hearings before a Senate Armed Services Subcommittee, senior Army, Air Force, Navy and Marine Corps officers said that even at the end of the Reagan five-year defense plan, our forces would not have a "reasonable assurance" of carrying out their military missions successfully. Could you please elaborate on this?

Answer:

The Joint Chiefs of Staff make an annual assessment of the forces required over the mid-term (10 years) to defend our vital global interests with reasonable assurance of success. The force requirements are developed in light of the estimated Soviet threat. They serve as a benchmark to assess the risks to our interests and to advise me, prior to the annual Defense budget cycle, of total force requirements and shortfalls. By not possessing these reasonable assurance force levels, higher risk is attached to successfully attaining our military objectives in the event of a conventional war with the Soviet Union. This, in turn, makes Soviet military adventurism more likely, increases their coercive powers over friends and Allies, and lowers the nuclear threshhold. The forces programmed over the next five years will undergo significant improvements over current force capabilities in terms of quantity, quality, and staying power. The dilemma is that the Soviets will not have stood still either. Although the gap will have been narrowed, a gap will nonetheless remain.

Outlay Reduction

Senator Tower: Mr. Secretary, there appears to be a certain amount of support forming around a budget plan, which calls for a three-year defense cut of $38.9 billion in outlays. Could you outline what the specific consequences of such a reduction might be? How would this affect of force posture? Our ability to carry out our national security policy?

Answer: The Department of Defense strongly recommends against consideration of any reductions beyond those already recommended in the President's revised defense program. While those reductions forced by economic circumstances will make it more difficult to attain our goal of revitalizing U.S. military strength, the revised defense program will still achieve that critically important objective. Further cuts would, however, compromise our ability to rearm our forces in the timely, efficient fashion that our national security requires.

Military Pay Increases

Senator Grassley: What is the expected increase for military pay, in dollar terms, for FY 1983, FY 1984 and FY 1985?

Answer: Between FY 1982 and FY 1983 military pay for the active force and the reserve components will increase by $6.4 billion. This includes a $4.5 billion increase in FY 1982 costs resulting from the October 1, 1981 pay raise which will be financed by a supplemental appropriation. The supplemental request will be submitted at a later date. Between FY 1983 and FY 1984, the increase is $1.1 billion and between FY 1984 and FY 1985 the increase is $1.7 billion.

AGRICULTURE

MONDAY, MARCH 8, 1982

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee convened, pursuant to notice, at 9:37 a.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Kassebaum, Boschwitz, Symms, Grassley, Quayle, Chiles, Sasser, and Exon.

Staff present: Stephen Bell, staff director; Charles Riemenschneider, senior analyst, physical resources group; Lizabeth Tankersley, minority staff director; and Martin Kress, analyst for energy and agriculture.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. The hearing will please come to order.

Mr. Secretary, a number of Senators have demonstrated that they wanted to be here to inquire of you. I do not think we are going to wait any longer. However, they probably will be arriving. If we are finished, before they arrive, we might wait a couple of minutes and call and see if anybody really wants to come to ask questions. The indications are that about 9 or 10 would like to ask questions.

So it is my pleasure to welcome you here. You are going to be followed by some other witnesses. We are going to try to do them separately. Senator Bellmon is going to follow you, and Mr. Robert White from Van Dale, Inc. representing the Farm and Industrial Equipment Industries, and Mr. Carl Fredrickson from the Farm Credit Administration.

I have some prepared remarks. I will just make them part of the record, and we will proceed to hear you, and then we will inquire of you. I have no opening questions, you may proceed.

I welcome those who are part of the Department with you to the hearings. I am hopeful that we will hear from you about your views on the effect of macroeconomic situations on agriculture. We have more to do with that than the specific programmatic assessment of the Department of Agriculture.

PREPARED STATEMENT OF CHAIRMAN DOMENICI

It is a pleasure to welcome our four witnesses to the committee. We are happy to have Secretary Block make his first appearance before this committee to give us the administration's assessment of the agricultural situation today.

A special note of welcome is due our former colleague and ranking member of this committee, Henry Bellmon. His long-time interest in agriculture while Governor and as a member of the Senate and as a full-time farmer today should provide the committee with a unique and insightful perspective on the state of the agricultural economy.

We are also pleased to have representatives of both the farm machinery industry and the agricultural credit institutions express their views on the current agricultural situation. Mr. Robert White, a manufacturer of grain storage and handling equipment from Minnesota will testify on behalf of the Farm and Industrial Equipment Institute on the effects of the current economic difficulties in the agricultural sector on the farm supply industries. Mr. C. T. Fredrickson, Senior Deputy Governor of the Farm Credit Administration will give us his perspective on the credit outlook for farmers.

HEALTH OF AGRICULTURE IS VITAL TO ECONOMY

During this current recession we have all heard of the difficulties facing the automobile and housing industries, but little has been said about the potentially serious problems in agriculture. The Department of Agriculture forecasts that 1982 is likely to be the third year in a row of declining cash income for farmers. With 10 percent of total national employment in farming and the farm supply industries, and another 12 percent employed in marketing food and farm products, the health of agriculture is vital to the economy as a whole.

The importance of agriculture to this Nation is exemplified by the fact that agricultural exports make up a fifth of our total merchandise exports. Our trade balance and, indeed, America's position of strength in the international economy, are heavily dependent on a vibrant agricultural sector.

Also of great importance is the impact of the macroeconomy on farmers. Although increased supplies of farm products have caused some of the decline in farm prices and income, slow growth in the economy and high interest rates have intensified the difficulties in the agricultural sector.

The stagnant economy over the past 2 years has resulted in increases in real food purchases of less than one-half of a percent annually. Real food demand has not even kept pace with the 1 percent yearly population growth and the 4 percent real growth in food demand maintained from 1975 to 1979. Without a strong economy, there is little prospect for improving farm income.

HIGH INTEREST RATES AFFECT COSTS OF PRODUCING FARM COMMODITIES

We have all listened to our farmer constituents complain of high interest rates and their impact on the costs of producing farm commodities. These interest rates also put downward pressure on farm prices. Food processors cannot afford to purchase farm products for inventory. Our commodity export markets also decline with the rising value of the dollar overseas which is, in part, a result of our high interest rates.

The American farmer has a tremendous stake in our efforts to reduce the deficit and Federal borrowing and thus bring down interest rates. Farmers will be among the first to reap the benefits of a stronger economy if we are successful.

I look forward to the remarks of our distinguished witnesses.

Chairman DOMENICI. Secretary Block, if you would proceed, I would be most appreciative.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY RICHARD LYNG, DEPUTY SECRETARY; WILLIAM LESHER, ASSISTANT SECRETARY FOR ECONOMICS; AND STEPHEN DEWHURST, BUDGET DIRECTOR

Secretary BLOCK. Thank you very much, Mr. Chairman, and it is a pleasure to join you here today.

I have with me Deputy Secretary Dick Lyng to my left and Bill Lesher, Assistant Secretary for Economics; and to my right Steve Dewhurst, Budget Officer for the Department of Agriculture.

We are all pleased to have a chance to testify on the and just issues of great importance to Agriculture.

I have a statement here that is about eight pages. I can read it, or just highlight it, as you wish.

Chairman DOMENICI. Why do you not proceed to read it? I think that will be fine.

Secretary BLOCK. Then we will get the details in.

Chairman DOMENICI. Yes, sir.

Secretary BLOCK. I do feel that the statement itself does have a considerable amount of very good information, and I would like to read it for the record. It does answer the questions that the committee has a specific interest in, that is what we were told.

So with that, Mr. Chairman, this testimony does cover several topics related to agriculture. They include: One, the overall outlook for the agricultural economy, second, the effects of fiscal and monetary policies on the agricultural sector, and third, highlights of the Department's budget request.

OVERALL OUTLOOK FOR THE AGRICULTURAL ECONOMY

It is important to recognize agriculture's important role in the general economy. Broadly defined, agriculture is the Nation's largest industry, with assets equal to about 88 percent of the capital assets of all U.S. manufacturing corporations. Agriculture also is the Nation's largest employer. Economic activity in the U.S. food and fiber system requires the services of more than 23 million people, or about 22 percent of the labor force. Farming alone requires 3.7 million workers—as many as the combined work force of the transportation, steel, and automobile industries. One out of every five jobs in private enterprise is related to American agriculture.

Agriculture's impact on the entire economy is also significant. The value added to farm products as they flow through the economic system amounts to about 20 percent of the gross national product. Agricultural output has increased more than 70 percent since 1950, while total input use increased less than 4 percent. Today each farmer provides food and fiber for 60 Americans as well as a growing number of foreign customers; 60 years ago, one farmer supplied only 10 Americans with food. It is important to remember that few resources are as important as agriculture to the economic strength of the country.

The economic condition of the farm sector is obviously a vital concern. U.S. agriculture faces difficult financial conditions this year. The current agricultural outlook can be summarized as one of large supplies facing weak demand, resulting in a continued cost-price squeeze. Net cash income from farming in 1981 was about 18 percent below the 1979 peak and further declines are possible in 1982—although it is too early to say for sure.

Record U.S. and world crop production, large livestock output, and weak demand in the United States and abroad are combining to hold down farm receipts. The large volume of products being marketed from the bumper 1981 harvest is keeping farm prices too low and limiting increases in crop receipts. This pattern is likely to continue at least through mid-1982. The current recession is dampening increases in livestock prices, although they have turned up in the last 2 or 3 weeks, but we expect some strengthening as the economy recovers later this year. Growth in domestic consumption of agricultural products in 1982 will likely be limited to less than 1.5 percent due to stagnating per capita incomes, growing unemployment, and high interest rates.

U.S. agriculture has become more dependent upon world markets, and consequently more vulnerable to fluctuations in the world marketplace. Worldwide economic growth also has been poor. Global real economic growth in 1981 lagged at 2.1 percent, and growth prospects for 1982 are forecast at under 3 percent. Growth at these rates leaves little, if any, margin for improvements in per capita incomes. By comparison, world economic growth in the 1960's and 1970's averaged 4 to 5 percent annually. The current global slowdown has resulted in weakened demand for agricultural products in general, and imported U.S. farm products in particular. Also affecting our exports is the high level of foreign agricultural production and the substantial rise in the value of the U.S. dollar. U.S. exports now cost foreign buyers about 30 percent more than a year ago. I think that is pretty significant right there.

NET FARM INCOME

It is difficult to forecast exactly what net cash income or net farm income will be in 1982—much depends on this summer's crop which is not even planted yet. Other uncertainties about world weather patterns and economic conditions will influence the outcome. It should be realized that net farm income statistics are extremely sensitive to small changes in farm prices and costs. I think this is important to appreciate. For example, a 1-percent change in the forecast of average prices received by farmers in 1982 would change cash receipts by about $1.5 billion and result in a 10-percent change in net farm income. Similarly, a 1-percent change in production expenses would also result in about a 10-percent change in the opposite direction in net farm income. For these reasons, any estimate of net farm income made this early in the year is highly tentative.

The farm sector is not homogeneous and broad generalizations do not adequately describe economic conditions for all farmers. There are wide income variations according to commodity produced, region, size and tenure of operators. Well established farmers with a large equity base are better able to withstand short-term declines in income than are new entrants to farming or farmers with large debts financed at high interest rates. While the farm debt-income ratio has doubled over the last 2 years and some farmers are overextended, the farm sector still has a relatively low overall debt equity ratio of 16 to 17 percent and has a substantial per-farm equity base. That is good in any business terms.

The Agriculture and Food Act of 1981 provides authority for programs and the operational latitude to protect American agriculture from market volatility, but the legislation is not a complete answer for all problems facing American farmers today. The single most important method for improving economic conditions in the agricultural sector is to get the general economy moving again. The long term solution is sustained, noninflationary economic growth with lower interest rates.

While the slowdown in world demand in the face of record supplies has led to a sharp buildup in grain stocks, the current stock-use ratio on a global scale is slightly under 15 percent compared with around 20 percent in the late 1960's. This suggests that as economic activity recovers, shifting demand conditions could bring about a sharp recovery in prices.

What we are really saying is that we do not have the size of world stocks that we had in the sixties, so we could turn this thing around under the right conditions.

EFFECTS OF FISCAL AND MONETARY POLICIES ON THE AGRICULTURAL SECTOR

Mr. Chairman, as I have indicated, economic conditions in the agricultural sector are dependent on the performance of the United States and world economies. To the extent that fiscal and monetary policies affect these economies, then they will affect U.S. agriculture. As you know, economists have differing opinions regarding the economic impact of various policies. Thus, there are differing opinions as to the specific impact of fiscal and monetary policies on agriculture.

Our fiscal policy is based on reducing taxes to stimulate savings and investment, which in turn will lead to a higher sustainable economic growth rate. The strongest direct effect of economic growth is on the demand for livestock products, particularly meat. Reflecting very little growth in real per capita disposable consumer incomes for the past 2 years, livestock prices and receipts have not risen substantially since 1979. Stronger demand for livestock leads to stronger demand—and higher prices—for feedstuffs—grains and high protein feeds. Economic growth also increases demand for other farm products, although the impact is not as strong as in the livestock sector.

Policies that stimulate strong economic growth will lead to higher net farm income. By the end of 1984, we expect growth in consumer incomes to lead to about $15 billion more in consumer expenditures on food and beverages. This increase is expected to translate into an additional $3 to $5 billion in net farm income. Also, because of the tax cuts, farmers will have more disposable income. This is important because it represents more money available either for consumption or additional investment.

Our fiscal policies also call for accelerated depreciation allowances. This will increase farm sector cash flow while increased private savings will put downward pressure on interest rates. A 1-percent decline in the interest rate on the outstanding farm debt reduces farm outlays by $2 billion. I think that is interesting to note, just a 1-percent decline in interest rates on the outstanding farm debt will reduce the farm outlays, the costs, by $2 billion. Both accelerated depreciation and lower interest rates will stimulate agricultural investment. While increases in farm productivity continue to outpace those of the nonfarm sector, the rate of increase has been slowing. Agricultural investment has been weak since 1979, largely due to low net farm income and high interest rates. Continued growth in farm productivity is important because it will allow us to satisfy a growing demand without additional inflationary pressures. With increased productivity growth, U.S. agriculture will become more competitive in world markets. Furthermore, for every $1 billion in additional exports we add another 35,000 jobs throughout the economy and generate more than $1 million in additional business activity. Thus, fiscal policies to stimulate savings and investment are as important to the agricultural sector as they are to the economy as a whole.

Increases in farmers' production costs are closely tied to the general inflation rate. Slower money growth has caused a decline in the inflation rate and will reduce the rise in farm production expenses this year to about 4 to 6 percent—the smallest increase since 1975. A major part of the President's economic recovery program is his commitment to a more stable growth in the money supply. Although reducing inflation through monetary restraint may be a somewhat painful process in the short run, farmers will benefit from lower increases in noninterest costs. If tight money keeps inflation low during the recovery, then farm income will rise substantially as cash receipts move up and lead to a more sustainable prosperity.

HIGHLIGHTS OF USDA'S BUDGET REQUEST

Our January budget proposal for fiscal year 1983 totaled $23.5 billion in outlays. The total value of programs and services provided by the Department in fiscal year 1983 were estimated at $45.4 billion. We believe that the programs of the Department will continue to make a major contribution to the viability of the agricultural community and the well-being of all Americans.

We must continue our joint efforts to reduce the growth of Federal spending. As such, program levels in almost every area of the Department are reduced from 1982 levels. However, in most cases, we can minimize the effects by better targeting and management of our program efforts. Even with these overall reductions, we have provided for increases in a few high priority areas.

RESEARCH AND EXTENSION

We continue to regard agricultural research as a very high priority. We are requesting an increase of $54 million for agricultural research in fiscal year 1983.

AGRICULTURAL EXPORTS

The administration also places a very high priority on expanding our agricultural exports. We are requesting an increase of $4 million for our foreign market development programs, and funds to offset inflation in our other overseas activities. We propose to continue the export credit guarantee program and Public Law 480 program at about the same levels as this year.

CROP INSURANCE

We are moving aggressively to expand the all-risk crop insurance program. In crop year 1983, we hope to cover between 40 and 50 percent of insurable acreage.

SOIL AND WATER CONSERVATION

In this area, we are proposing a substantial reordering of priorities and fundamental program changes. Improved effectiveness is expected as a result of the increased use of "targeting" of efforts to areas with critical resource problems.

RURAL CREDIT

Farm loans will continue at almost $4 billion each year in fiscal years 1982 and 1983, with increased emphasis on farm operating loans. We are proposing that farm operating loans be increased by $135 million for fiscal year 1983. Rural housing loans will decrease to $1.1 billion in fiscal year 1983 with assistance focused on low income families.

DOMESTIC FEEDING PROGRAMS

Through better management and various legislative proposals, we can reduce funding for the food stamp program by $1.7 billion in fiscal year 1983. The child nutrition programs will operate at $2.8 billion, the same level as in fiscal year 1982. A number of other programs—or example, women, infants, and children (WIC) program—will be transferred to the Department of Health and Human Services.

MARKETING AND INSPECTION

A thorough assessment in this area identified a number of programs which are no longer economically justified. We also plan to improve the efficiency of our meat and poultry inspection activities.

COMMODITY CREDIT CORPORATION

Last Friday, the Office of Management and Budget informed this committee of the Department's revised Commodity Credit Corporation outlays estimates for fiscal years 1982 and 1983. The new estimates are up considerably over those reported in the President's January budget. However, the CCC commodity programs are doing exactly what they were designed to do—provide price and income protection to farmers during periods of low market prices. Despite our general support for these programs, I am concerned about the cost of the dairy price support program. We are working to find ways to bring supply under control and reduce the program's costs.

We are now projecting CCC net outlays at $10.5 billion for fiscal year 1982 and $6.8 billion for fiscal year 1983. The major reason for the increases is that we have much larger crops and dairy supplies than previously anticipated. Production of the 1981 U.S. crops was up more than 15 percent from the 1980 levels and, as I indicated earlier, demand for agricultural products here and abroad is sluggish.

Mr. Chairman, that concludes my formal statement. I realize that the outlook for agriculture is not now a particularly bright one. I realize that this budget is an austere one. However, I believe that the administration's economic and fiscal policies, given the chance to work, will get America back on the road to prosperity. I look forward to working with you and the committee in an attempt to achieve these goals.

ECONOMIC EMERGENCY LOAN PROGRAM

Chairman DOMENICI. Mr. Secretary, let me ask you a few questions, and then I will yield to Senator Sasser.

With reference to the $600 million economic emergency loan program in the Farmers Home Administration, that was put in the 1981 farm bill to be administered at your discretion.

Do you intend to use that in 1983?

Secretary BLOCK. It will not be used in 1983. Frankly, I am not at all in a hurry to use it in 1982, because I know for a fact, we have adequate money in our operational loans, and we have plenty of money through the Farmers Home Administration, for farmers to plant their crops, and whatever they need. Your question concerned 1983, is that correct?

Chairman DOMENICI. Yes, sir.

Secretary BLOCK. It is not in 1983.

Chairman DOMENICI. Well, the law permits it beginning in 1982. It is not included in your budget?

Secretary BLOCK. No. And we do not intend to have it in 1983.

Chairman DOMENICI. So you are not asking this committee to make room for that in the budget?

Secretary BLOCK. No, we are not asking for that, and I was really responding to 1982, because even in 1982, I think we have the proper kind of lending authority to handle the needs of agriculture. It may be needed later, but right now I am not concerned about it.

Chairman DOMENICI. Did you want to add anything?

Mr. DEWHURST. The farm bill authorizes the program for fiscal 1982, there is no current authorization to run it in fiscal year 1983.

PLANTING INTENTIONS

Chairman DOMENICI. Let me ask you this question, Mr. Secretary.

You have alluded, at various points in your statement, to the fact that farmers have not yet planted the crops. I have heard from some agrieconomists, people like Henry Bellmon, a month or so ago, people in his State were concerned about whether farmers were going to find economic conditions such that they would, in fact, not make the expenditures to plant. They were concerned that some, maybe a substantial portion, would not plant.

Now, obviously that would be of great concern to all of us, if that were the case. Do you have any way, with your ability to gather information, to tell us what is your present assessment of the situation?

Secretary BLOCK. Well, we have our early planting intentions.

I may ask Assistant Secretary Lesher to comment on that, but I have no doubt in my mind but that we will not only plant the acreage that we planted last year, but somehow we always find additional acres to plant. There will be more acres planted for crops than we planted last year, I would predict that with absolute certainty, but Mr. Lesher may have some figures.

Mr. **Lesher**. The planting intentions report did come out. The data was gathered——

AGRICULTURE AFFECTED BY INTEREST RATES

Chairman **Domenici**. Is agriculture affected by the interest rates?

Mr. **Lesher**. Mr. Chairman, that is a difficult one to answer, because you have 2.5 million farmers, and each situation is different.

I think we can say that interest costs are a major factor in farming. As all of us know who come from farms, in the springtime you go to the bank and borrow money, usually to put out the crop, unlike other businesses that have self-financing. It is hard to say.

Autos and houses are affected by interest rates. Agriculture is affected, as well as some of the other sectors.

Secretary **Block**. The size of this agricultural industry, relative to the auto industry and the housing industry, is so big that it dwarfs these other industries. Even though they are important. It still dwarfs them.

EXPORT GROWTH

Chairman **Domenici**. Mr. Secretary, with reference to exports, you mentioned some aspects in your opening remarks. My information is that exports grew at an annual rate of 14 percent, from almost $22 to $41.2 billion from 1975 to 1980.

In 1981, agricultural exports increased only about 5 percent. Do you expect 1982 exports to increase at that 5 percent rate? What is the principal cause for the slowdown?

Secretary **Block**. In 1982, we project there will not be an increase. It will be the first time that we will not see an increase.

One reason, is that it is costing these countries 30 percent with the high-interest rates. A lot of countries are reluctant to stockpile any grain, because they have weak economies. So they are not as energetic in their buying efforts.

Finally, I would say the most important reason is, that last year was a very good crop year around the world. They just did not need as much of our grain. These are the main reasons, as I see it, Mr. Chairman.

INCREASE FOREIGN DEMAND FOR FARM PRODUCTS

Chairman **Domenici**. Is there anything that either you or the Congress could do to increase foreign demand for farm products?

Secretary **Block**. I think there are things that could be done, and we have been making an energetic effort. We can plan, and we figure to do that. We have targeted countries around the world, where we feel that there is some possibility of making sales, and I have gone to visit many of these countries. Where I have been unable to go, I have sent members of my staff, Under Secretary

Lodwick and Deputy Secretary Lyng have gone. We are trying to reestablish, and I mean reestablish, the United States as a reliable supplier of food and fiber around the world.

We have lost some of our credibility in this area, as far as I am concerned, as a result of some stop-start embargoes, of different kinds over the past 8 or 10 years. Not just the last one, but over the years.

We are working to establish our credibility. We are working to try to get ahead of some of the countries. We have been waging a struggle with the European community. They have come in to become a major exporter in world trade, oftentimes at the expense of the United States, and some of our other trading allies. The only way they can do it is by subsidizing their exports. So that means the American farmer is competing against the treasury of the European communities. That is not fair, and we as an administration have united in an effort to push for some change in direction, on the part of the European community.

We are working with Japan to open up markets there that have been closed. Japan is a great market for the United States, and there is still a lot more room for us to benefit from that market under the right conditions.

We have expanded the Commodity Credit Corporation's guaranteed loan program, from $2 to $2.5 billion, to provide more guaranteed loans to countries which provide some help to us. Circumstances have cost us some markets. As you well know, we are in a situation where we just cannot afford to guarantee loans to Poland, because there is no assurance that they will be repaid. It would be bad business. Poland has been a substantial market for us, really, and I do not know what is going to become of it now.

Even Romania falls into a questionable category at this point in time. So we are just going to continue to probe for every opportunity, and push as hard as we can.

Chairman **Domenici**. I am going to yield to Senator Sasser.

Senator **Sasser**. Thank you, Mr. Chairman.

FARM FORECLOSURES AND ACCELERATION LETTERS

Mr. Secretary, I certainly agree with one thing you said earlier and that is that we simply cannot have an overall healthy economy unless the agricultural sector of our economy is healthy. If we learned anything in the depression years of the thirties, it is that you simply cannot build health back into the economy overall with a depressed economy in agriculture.

Mr. Secretary, I come to you this morning to say that the farmers in my State are very apprehensive. Apprehensive, I think, might be an understatement. They are frightened. Those who are frightened, also many of them are bitter and angry, and there is not a good feeling in the agricultural sector of my native State of Tennessee. Many of them are complaining about letters that they have gotten from the Department of Agriculture about Farmers Home Administration loans and that sort of thing. I understand that, as of the end of last year, some 2,400 farm foreclosures were in process and that over 13,000 acceleration letters, warning farmers to pay up or else, were or have been sent out.

Can you give us an update on these numbers?

Secretary BLOCK. I do not have the details, Senator, but we will make them available to you.

[The following was subsequently supplied for the record by the Department of Agriculture:]

FARM FORECLOSURES

As of the end of February 1982 the number of Farmers Home Administration's farmer program borrowers in foreclosure was 3,253, and a cumulative total of 18,465 farmer program borrowers had received servicing letters. This letter is sent to delinquent and problem case borrowers who plan to continue their farming operations, but who have not been able to show substantial progress. Conditions agreed upon in the current farm and home plan which must be met for the borrower to continue to receive FmHA assistance are discussed in the letter.

Secretary BLOCK. I would be pleased to comment in general on it because it has been a subject of almost continued discussion wherever I have gone.

So I would say very simply that I think that the concerns about massive foreclosures is very much overstated, and when the dust clears and it is all said and done, we are going to find out that agriculture is going to be funded and kept in business to the extent that we can, and it is going to be almost in its entirety.

In January 1982, I met with the Governor of the Farm Credit Administration and representatives of American Bankers Association and the Independent Bankers Association of America. I asked them to join with me to fund agriculture, and to help farmers plant crops this season and to keep people in the business. We will work together to do it to the extent that we can. I just think, when it is all over with, there will not be that many problems.

I will say in defense of sending these letters out, whatever they might have said, whatever they are, it is designed to make sure that farmers know where they are, and if they are in trouble, that they can come in and counsel with our Farmers Home Administration people to try to hammer out the problem. This kind of management and attention to the management of their farming situation is necessary in order to protect them as well as the Federal Government's interest in their businesses. So I think it is good business that we have been right on top of the situation. Historically, I think we have thrown a lot of money around and have not done a very good job of monitoring it or counseling with the borrowers. We are going to do a better job of that.

ECONOMIC EMERGENCY LOAN FUND

Senator SASSER. Well, Mr. Secretary, you indicated a moment ago that as far as the economic emergency loan fund is concerned, you are not requesting that for fiscal year 1983. In other words, USDA is not requesting further emergency economic loan funds for this upcoming fiscal year?

Secretary BLOCK. No.

Senator SASSER. Is that correct?

Secretary BLOCK. Yes. We are not requesting further economic emergency loan funds. We have an increase in our budget for Farmers Home Administration operating loans. The fiscal year 1983 budget represents a 50-percent increase in operating loans over fiscal year 1981. We really think the money for these farmers should be coming from the operational loan part of our lending operations. We are going to have the Federal Crop Insurance program take up the slack, and the farmers are going to be expected to insure their crops if they want the protection against disaster.

Senator SASSER. And you have not yet tapped the $600 million economic emergency loan funds that you presently have that could be used to aid farmers in fiscal year 1982 who are facing foreclosures, is that correct?

Secretary BLOCK. That is correct. We are working on guidelines but I do not put a lot of stock in the whole thing because the money is there to borrow to put in the crop and, you know, whether it comes out of this economic emergency fund or whether it comes out of regular operating funds, I do not see it as a big issue.

INTEREST RATES FORCING MORE FARM FORECLOSURES

Senator SASSER. Mr. Secretary, I think we are going to see a lot of farmers going bankrupt this year. I think there are going to be a wave of foreclosures that will be unprecedented in the last 30 or 40 years.

Now, the farmers in my State, in order to borrow money from commercial banks, are paying almost 19 percent. In fact, some of them are paying more than that.

Now, in light of the extreme rates that are being charged the farmers, in light of the past credit burden that they are already carrying, I just do not see how hundreds of farmers in my State are going to make it this year. We still have got in the western part of Tennessee cotton in the fields. They did not even go out there and get that cotton harvested this last fall because cotton prices were so dismal. It just did not pay them to do it. The year before, severe drought, you put poor market prices, poor market conditions on top of droughts a year before on top of 19 percent interest rates, these people are going to lose these farms. I do not see any way that—unless there is some help forthcoming from USDA—I do not see any way they can stay on the farm, let alone put the crops in the ground this spring.

Secretary BLOCK. Senator, I appreciate that the interest rates are entirely too high. You cannot get enough income off the crops to pay 19 percent, I know that. That is why, with a substantial reduction in inflation in this country, it only has to follow that these interest rates must come down. I know that it is urgent that they come down soon for the protection of agriculture as far as what we are doing.

I would point out that we have more money lent out than we have ever had, substantially more. The farmer held grain reserves and the loan programs have caused our budget outlays to go higher than they were supposed to go. It is because of the economic situation in agriculture that the money has flowed out readily into the hands of the farmers. I know that they need the money, but it has gone to them. The interest rates on commodity loans were 12.25 percent if they borrowed in January, and 14 percent in February, and 14.875 percent in March. So those are not such bad interest rates. I do think we are doing a great deal to help the farmers, but depending on which farmer, it may not be enough. I understand that.

Senator SASSER. Thank you, Mr. Secretary.

PROPOSED ATTACK ON FARM CREDIT SYSTEM

Senator GRASSLEY. Secretary Block, thank you for coming here today.

I appreciate the work that you are doing as Secretary of Agriculture, and I can say that even though the situation in rural America is not good, as I traveled Iowa the middle 2 weeks of January and the middle week of February, there was not a personal animosity toward you. In fact, nothing negative said about you at all, and I think that is a compliment to a person who has been in office 1 year, and has such a difficult time as you have, and unlike your predecessors in office who had been the scapegoats for a lot of antagonism coming from the farm area. So I can say that honestly, and I do not say it just to impress you, either. But it is a tribute to the job you have been doing.

I want to follow up a little bit on what Senator Sasser was talking about, and ask specifically. An article that was in the Des Moines Register over the—I think Thursday or Friday, and I do not think you need to know exactly what was in the article, but it did deal with a proposed attack on the farm credit system by the Office of Management and Budget, and how it was under review in your Department, and I do not suppose the review is over, but do you really anticipate that we are going to have something that is not costing the taxpayers any money; which the farm credit system is not, and which is out there in the private sector, operating on their own, is really going to be in jeopardy as a result of this administration? I hope not.

Secretary BLOCK. Senator, I did not read that article, but I can assure you that in our discussions, and work within the administration, that I am going to be standing there to protect the farm credit system, which has provided the life and strength to this agricultural industry. Some of the productivity we enjoy today, is because we have been able to put together the resources through this system, and it is a cooperative system.

I realize it is not a Government system, however, I think it is a great system. I do not know if Mr. Lyng may want to comment on that.

Mr. LYNG. Senator, I did read the article in the Des Moines Register, and it was purely speculation, and I thought totally unfounded.

I have attended many meetings on farm credit, and that is across the administration, and I just do not know where the rumors or speculation in that story came from.

Senator GRASSLEY. You do not detect anything even emanating from OMB on this subject?

Mr. LYNG. No, Senator. As Secretary Block has said, there is no threat from this administration to the farm credit system.

Senator GRASSLEY. Even if there were such a proposal, though, it would not save any money to the budget, would it? There is no cost to the taxpayers?

Secretary **Block**. It would not save a penny.

FARM FORECLOSURES

Senator **Grassley**. OK.

Well then I would like to go on again, on credit problems. Do you have any statistics that show a dramatic increase of foreclosures, like what Senator Sasser suggested? What are the latest statistics showing in that area?

Secretary **Block**. I do not have any statistics with me, and I apologize for that. Perhaps I should have anticipated that. I will get them for you. I think the latest figures we have are as of December. There really are not very many farmers that have been foreclosed upon. Very few. It is just a fraction. Less than 1 percent.

Senator **Grassley**. Is that an increase, or is that kind of the normal situation, from year to year?

Secretary **Block**. I do not have those comparative figures, either. I will get the exact statistics for you, and submit them for the record. I would guess it is an increase over the year before, because I think we all know that these times are tough.

[The following was subsequently supplied for the record by the Department of Agriculture:]

STATISTICS ON FARM FORECLOSURES

Data compiled by the Economic Research Service of USDA indicates that the number of farm foreclosures for the year ending February 1, 1981, was 1.3 per 1,000 of all farms in the United States. Voluntary sales and other transfers amounted to 35.1 per 1,000 farms for the same period. Farm foreclosures have varied in recent years from a low of .8 per 1,000 in 1967 to a high of 2.0 in 1978. Comparable data of farm foreclosures since February 1, 1981, is unavailable.

Secretary **Block**. If you look at the business community, we are losing more of the small businessmen than we did a year ago, and I think the same thing is true with agriculture, we are losing more farmers, and it is because we have some rough times out there. We have to get through them.

SET-ASIDE PROGRAM

Senator **Grassley**. Moving on to another point, is the set-aside going to work from the standpoint of the goals that the administration set for signup, and the number of acres going in, and the percentage reduction in production?

Secretary **Block**. I am more optimistic each day about the percentage objective. I was hoping for 40 percent on wheat and feedgrains, and I think that with each day we have a better chance of achieving that. Earlier I think that the articles that were written about it were all over the board. Some very positive and others had some doubts. Now they are beginning to appreciate that the acreage reduction program that we have offered has some incentives in it. It is worthwhile to the farmer that does not want to run a tremendous risk, to take advantage of this program and participate in it. I feel pretty good about it.

EXPENDITURES FOR TARGET PRICE COSTS ON FEEDGRAINS

Senator **Grassley**. Directly related to that, and following on as it impacts on the budget, and I should know, but I do not, is there any figures—are you proposing expenditures in this year's budget that we are considering for target price costs on feedgrains, or is there no cost? There is some cost in there?

Secretary **Block**. Yes; there is.

Senator **Grassley**. I do not need to know those figures, but there is some cost?

Secretary **Block**. Absolutely.

PAID DIVERSION FOR REDUCING PRODUCTION CONSIDERED

Senator **Grassley**. So let us suppose the set-aside does not work. You do not get the sign up that we need to have it be successful to reduce production, and then the increased prices, so that there is no bearing of the Treasury for target prices. .

Have you considered the alternative of a paid diversion for reducing production and increasing prices, too, is that expenditure which would be a sure expenditure maybe, would be a savings against what otherwise will bear the Treasury if we have too low prices and too high of a deficiency base?

Secretary **Block**. This was considered, and it was considered seriously. However, it looked like it would be more costly. Frankly, it looked like under the circumstances, the program we offered, would get substantial participation, and would offer the best possibilities for participation.

Senator **Grassley**. Does it have to be 40 percent to accomplish the goal that you want to accomplish?

Secretary **Block**. No; we are just trying to get as much participation as we can, and 40 percent is a figure that I have in my mind, that I think we can come close to achieving.

You know, so many things depend on the weather, and what develops, not only here, but in other places in the world. I do not think any of us knows exactly what the right amount is.

We are just saying that we ought to cut back some, because we have too much, and, if we can get 40 percent, it would sure help. I think that is really about what we are saying. It does not sound very scientific, but it is not very easy to be precise.

EXPORT CREDIT REVOLVING FUND

Senator **Grassley**. One last question, Mr. Chairman.

What about the funding for the revolving funds on exports, that provision that was provided for in the last farm bill that we did not fund?

Secretary **Block**. In principle, I think it is a very good idea. It is not provided for in the fiscal year 1983 budget, but it could help sell products. I concede that.

Senator **Grassley**. The extent to which it is a revolving fund, it would seem to me there would not be a greater cost to the Treasury if we could in fact supplement the fund, provide for it. It might bring a stimulant to the exports that we need right now. I know it has picked up a little bit in the last 2 or 3 weeks, but it was stagnant as a result of the talks of an embargo.

Secretary **Block**. It is true, money in a fund like this is not lost money. It is money that is working for us, but yet it would be an outlay. It would cost us to put it in there to start with. Once it is in there, it keeps working. It is loaned out and paid back. So I understand what you are saying. It is just a question of whether we are willing to go out and find the money and put it in there.

Senator **Grassley**. At this point you felt that it was not something that should be a high priority, or would accomplish it?

Secretary **Block**. You know, when the Department's budget is cut by approximately 20 percent, and to think about finding money for an export revolving fund, as important as it might seem, you have to decide, well, is it important enough to put it in there? At the time we did not put it in there.

Also, would it really make a dent in the situation? If you put a quarter of a million dollars in there, it would look like some, but it is not a lot. It is not going to sell you a lot of products. When we sell 45 billion dollars' worth a year, so how much can you afford to put in there to have a big impact. I guess that is where we came down. We were not sure that we could put enough in there to have a big impact.

Senator **Grassley**. I guess I was thinking that the grain trades was so stagnant for a period of time and had not picked up a whole lot, that anything might give a kind of—like a moral boost to the whole operation.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator.

Senator Exon.

TOTAL EMBARGO UNFAIR TO AGRICULTURE

Senator **Exon**. Mr Secretary, welcome to you and your associates. We are delighted to have them here this morning. I am also delighted to see my old friend and colleague from Oklahoma who, I understand, is going to be testifying in a few moments.

With agriculture in the shape that it is in today, it is important that we get together and see what we can do.

Mr. Secretary, I would like your opinion on a growing concern of mine that we hear from inside the administration that if an embargo is put in place, it would not be just an embargo against agriculture. I really believe that that is a harkening back to the embargoes of the past that have been disastrous as you and I would agree with regard to agriculture. But I am specifically bringing up to date the fact if an embargo should be placed, a total embargo at the present time placed against the Soviet Union and Poland because of the difficulties in Poland, you and I know that about 80 percent of all the trade with those two countries involves agriculture. Now, I think that we must guard against the fact that if the President decides that we have to have an embargo for national security reasons, that it really would be fair to all of the sectors of the economy because all products would be embargoed.

Do you agree that a total embargo would be most unfair on the Nation's food producers?

Secretary **Block**. A total embargo would affect agriculture in a most adverse way, and agriculture would suffer because, as you say, 80 percent of the trade is agriculture. I assure you that the President is very much aware of this also.

When I tell you not only is he aware of it, so is the rest of the Cabinet. If something drastic should happen, someone is going to be making those decisions and the President makes the final decision. Frankly, I do not like to talk about embargoes because it makes the market nervous and I do not anticipate that we are going to have one.

PARITY OF 90 PERCENT

Senator **Exon**. I would agree with you, but the President is the one who keeps talking about embargoes. It is the President who has said that we cannot shrink away from any alternatives. We are keeping all of our options open. So, you know, it is not me that is talking about embargoes, it is the President.

I wrote the President and received a reply back from one of his aides, which is standard, that if, from a national security standpoint, he felt it was necessary to impose an embargo while he was President for any reason. I asked and suggested if that should come to pass, then I would hope that he would agree now, which would strengthen and give some security to the markets, it seems to me, which are legitimately concerned about, that if the President felt that such a move was necessary, that he would come and ask for agricultural prices to be 90 percent of parity during the time that an embargo was in place and for 1 year thereafter.

If the President should decide an embargo was necessary, do you think that would be a fair and reasonable step for the administration to take, and if so, why do they not simply say it now, which would lend some stability to the market?

Secretary **Block**. I would not recommend that the move to 90 percent of parity, inasmuch as that would be an enormous change from where they are. I would like to see the market system put them in there, but that could mean more problems, probably for agriculture, in the long run by just mandating that everything be set at 90 percent for 1 year. I am sure there would become efforts made, and I would not spell them out specifically to help agriculture through a difficult time like this. But the suggestion of an automatic 90 percent of parity would not be the one that I would choose.

Senator **Exon**. You understand I said that in the context that if the President embargoed, we would go 90 percent of parity.

Did you understand my question?

Secretary **Block**. Say that again, please.

Senator **Exon**. I suggested in my letter to the President that if he decides for national security we have to place a total embargo on, which you and I would agree would adversely and unfairly affect agriculture, as opposed to other segments of the society, that 90 percent would only be in case that he felt that it was necessary to place an embargo on.

Do you still think that 90 percent of parity would be unfair to the producer?

Secretary **Block**. I think it would be unreasonable to put 90 percent of parity——

Senator **Exon**. Under any circumstances?

Secretary **Block**. Yes, sir. I think it would be unreasonable. I think there are better ways of handling the situation.

AGRICULTURE IS IN A DEPRESSION

Senator **Exon**. All right.

Now, yesterday, we heard a news report that Mr. Allen Sinai of Data Resources, and that firm has been before this committee on numerous occasions, has said that agriculture at the present time is in a depression in this country.

Would you agree with that statement?

Secretary **Block**. I would not agree that agriculture overall is in a depression.

There is no question that there are individual farmers that may be in a depression or in a very difficult situation. I am sure from their vantage point they are in a depression. But the industry, as a whole, is not in that bad a shape. It is suffering from a lack of cash flow, which is a serious problem, but the assets in agriculture are about $1.2 trillion and the debt is about $200 billion, which is a very favorable ratio for an industry. But we just do not have cash flow right now.

Senator **Exon**. What percentage of those assets are in land?

Secretary **Block**. I do not have the percentage but I am sure that—I would guess——

Senator **Exon**. A high percentage, would you not think?

Secretary **Block**. I would guess about half. Maybe more than that.

ON-FARM FACILITY STORAGE LOANS

Senator **Exon**. And in depressions generally, Mr. Secretary, I would remind you, that you and I know in depressions and even recessions we see a downturn in land values which make up a high percentage of the profit and loss statement and the balance sheet of every farmer in the United States.

Let me go on to another matter. Recently the Department of Agriculture closed down the onfarm facility storage loans, which is very troublesome to many farmers today because, as you know, we are already having grave difficulty in finding places to store the grain on lands, and with what appears to be another bumper crop coming up, many farmers are looking ahead.

Why did you close down the onfarm facility loans and when, if ever, are you going to open them up again?

Secretary **Block**. We had authority for $50 million worth of loans during fiscal year 1982, and we have used up $42 million of it already. I closed it down to review and find out precisely where we were because we were about to shoot on past the $50 million mark, which is all the authority that we had. Even when the program is opened up, there is only $8 million available at this point in time. I am sure you are aware of that.

Senator **Exon**. No, I am not aware of that, Mr. Secretary, but let us go into that a little bit.

Are you telling me that the Congress put in a budget authority of only $50 million and thereby limited your Department to that amount?

Secretary **Block**. The $50 million limit was endorsed by the Congress in the reconciliation process last year.

Senator **Exon**. Specifically for that amount?

Secretary **Block**. Yes, sir.

Senator **Exon**. I assume that this—these figures came about with some manipulation of figures dictated by the Office of Management and Budget. Am I incorrect?

Secretary **Block**. May I ask our budget officer to comment on that, sir?

Mr. **Dewhurst**. Mr. Exon, the $50 million limit was part of the March budget proposed by President Reagan last spring. The Congress in the reconciliation process made the program a discretionary program and the legislative history supporting that action indicated that the $50 million limit had been endorsed.

Subsequent to that time, the farm bill changed it to require a program in storage deficit areas. Spending has already hit $42 million this year, and the Secretary was forced to call a stop to the program this year to see where we stand. The $50 million limit was the President's proposal and it was endorsed in the reconciliation process.

Senator **Exon**. It was specifically endorsed at that figure, is that correct?

Secretary **Block**. Yes, sir.

Senator **Exon**. Could you answer my question, Mr. Secretary? From the information that you have just given us, I would have to take it that you did not plan to open up this program even to take—so that the farmers could take advantage of the additional $8 million that is there?

Secretary **Block**. No, sir. I do intend to have them use the full amount of the available funding, but the last $8 million must be used in grain storage deficit areas.

Senator **Exon**. When do you expect to make that decision?

Secretary **Block**. I think it should be within the next week or 10 days. We will get the details on it.

OUTLAYS FOR FARM INCOME STABILIZATION

Senator **Exon**. Mr. Secretary, Mr. Stockman was here a week or 10 days ago in front of this committee, and I pointed out to him that on page 561 of the budget of the United States documents sent over here, that the outlays for farm income stabilization had basically been reduced by some $4 billion plus from the estimate expenditures of 1982 to 1983, and I asked what possible justification there was for that with the situation that we are facing in agriculture today and the fact that the 1982 farm bill provided for certain loan assurances to the farmers. He said at that time, Mr. Secretary, that there was an error, and he said that may be about $2 billion low.

Yesterday, and I understand that—or the last—this weekend sometime, the usually efficient Director of the Office of Management and Budget said it is not $2 billion, it is $5 billion.

Now, what is the correct figure? How in the world did the Department of Agriculture and the Office of Management and Budget justify that much of a decrease in the outlays for farm income stabilization even under the 1982 Farm Act which most people think was less than necessary at best?

Secretary **Block**. Senator, the early figures were prepared from the August crop report, and they were the ones that we kept through the process of working on the new farm bill.

Once the new farm bill was passed, then the early figures that OMB had and that we were working with were the old figures. Now, we do have new figures and they are much higher. As you suggest, they are higher as a result of the problems we have been talking about today. The situation in agriculture is that prices are not good. Farmers are taking full advantage of the grain reserve program and full advantage of the loan programs. There is a great amount of money flowing into agriculture from these commodity corporation loans. The farmers need the money. Indeed, I think you are probably quite aware that we had to go to Congress about a month ago to get an additional $5 billion to reimburse the Commodity Credit Corporation for net realized losses from the 1980 and 1981 crop years. All of this tells us that what has happened in the last 3 to 5 months is the result of a very big crop and a soft demand for this crop and the need for capital on the part of the farmers to put in this new crop. It is fairly self-explanatory when you look at the whole scenario.

Senator **Exon**. Mr. Secretary, are you telling me that the explanation and answer to my question, which I appreciate your frankness, that the budget document that was sent over here and signed by the President of the United States this year, I do not remember the date, the chairman might, but sometime this year, relied on agricultural figures that were provided to the Office of Management and Budget last August?

Secretary **Block**. The budget was formulated based on figures from last August.

Senator **Exon**. Obviously, I would say I am wondering how far this budget is off in other areas if the Office of Management and Budget are so far behind on their projections as that? It seems unrealistic to me because certainly all of us knew between last August and the time that this budget book was finalized that there was not anything new about agriculture and the likely expenditures connected therewith.

I still do not understand how we could make that big a mistake.

Secretary **Block**. The whole answer is that the new figures are not built into the budget, that is all. Very simple, that is the way it is. But the new figures are higher and I think we all know why.

Senator **Exon**. Thank you, Mr. Secretary, and if there is a second round, I may ask some more questions. I thank the gentleman for appearing, and I thank you.

Chairman **Domenici**. Let me ask Senator Kassebaum, you do have some questions? Senator Symms, do you have some? We have not been using the 5-minute rule because we had been having enough members. We do have three more witnesses. I would appreciate it if the remaining questions would be within the 5 minutes, if possible. If it is not possible, we will accommodate you.

Senator Kassebaum?

IMPROVE CASH FLOW

Senator **Kassebaum**. Mine will be very brief.

I am sorry to have missed the opening comments, so perhaps some of this is a repeat. I would just like to comment on the 40-percent set-aside. In Kansas we are hopeful that it might be 30 percent. But, regardless of that, the more important issue before us is what we can do here as a budget committee, to get interest rates down. Certainly that is a task that we are all dedicated to here.

Also, I am interested in your comments on the cash flow. I have never seen a time, and there have been times as you well know when farmers say they have never seen things so bad, but I have never seen a time when more concern has been expressed to me by all members of the farming communities in Kansas. Those include established farmers who know that they can get by all right but who have begun to worry about the future and what it holds, and certainly for young farmers.

You mentioned the cash flow problem of being caught in the crunch between the high interest rates and tight credit. I do not see a lot ahead that is going to improve cash flow, particularly with exports declining. I believe they are off about 11 percent compared to last year. Is that about right or is that too high?

Secretary **Block**. I think it is 4 percent in value due to declining dollars, but with a corresponding increase in volume. It is because the price is not good.

Senator **Kassebaum**. I think we perhaps have counted too much on an expanding export market. I would like some thoughts you would have on how we can improve cash flow or how it will be improved.

Secretary **Block**. Well, to background the answer to that question, I am as aware as anyone of the fact that the situation in agriculture is not good. I get back there enough so that I know what it is like.

Within the past 3 weeks, I met with the Cabinet council on food and agriculture and the President. The President and virtually everyone on the Cabinet were there. We spent at least a principal part of that meeting discussing agriculture. The prices and the costs and the needs, the things we need to do to improve the agricultural economy. The President is quite aware of the problems in agriculture. Solutions are not easy.

If I had a magic wand, I would be waving it now. On the side of improving price and finding a market for what we had raised, it is important that this national economy turn around to provide a stronger buying power on the part of consumers. Consumers will buy more beef and thereby strengthen meat and grain prices. As a result, the economies around the world should turn with the U.S. economy, and they will be stronger buyers of our products.

On the other side of keeping costs down, we are looking at a substantially lower cost of farm input this year. I think it is 4- or 5-percent increase, which is much better than we have seen in past years, but the interest rates are still a big problem. If we can bring interest rates down, we are going to be looking at a vastly improved picture.

On the demand side, in spite of the fact that maybe the Secretary of Agriculture would like to think that he can do a lot of things to improve farm prices, Mother Nature has a lot more to say about it than the Secretary of Agriculture. Maybe Mother Nature will help us this year.

TAX REDUCTIONS WOULD HELP CASH FLOW

Senator KASSEBAUM. I just would like to make one further comment.

You said the tax reductions would help the flow of cash to the farmers. As you know, there are not too many farmers who pay taxes right now anyway.

Secretary BLOCK. Only the ones who made some money. I do not know who they are. I understand that.

Senator KASSEBAUM. Thank you, Mr. Secretary, Mr. Chairman.

Chairman DOMENICI. Mr. Symms?

IMPACT OF CARIBBEAN BASE PROGRAM ON SUGAR PROGRAM

Senator SYMMS. Welcome to the committee, Mr. Secretary. I just have two very brief questions that I would ask.

One is how do you foresee the impact of the President's new Caribbean Basin program on the implementation of the sugar program and the cost that that might add to it?

Secretary BLOCK. Senator, I do not see it as a problem in implementing the sugar program because of the way the thing is designed. The sugar program is going to function and the price supports will function accordingly. Sugar will continue to flow in at up to 110 percent of recent years, a high level for the Caribbean Basin countries. I am not sure that it will necessarily fill all the quota.

So I guess I do not see it as being a problem with the sugar program. We spent a great amount of time, longer than I ever thought we would have to spend, working on a program and a plan that would protect the sugar program as it exists and avoid any possibility of having sugar from all over the world dumped into the United States. I think it will work, and we are going to monitor and watch it close. If something starts going haywire, we are going to get right at it, because the risks are pretty substantial.

COMMODITY CREDIT CORPORATION REESTIMATES

Senator SYMMS. Well, there is some concern, I think from the beet sugar people, about what might happen. And I guess if you think that it will fit in, we are glad to hear that.

The President's budget estimates, maybe you got into this with Senator Exon, I got in here late. I did not hear. If you have, you do not need to go over it again. But they estimate in the Commodity Credit Corporation the cost would be $1.2 billion.

Is that an accurate figure or do you have a different number than that?

Secretary BLOCK. I am going to let Mr. Dewhurst respond to that, if it is all right.

Chairman **Domenici**. Senator Symms, under the Budget Act, the administration has until April 10 as a specific provision in the act to send up revisions to its budget, since it is prepared over a period of time, estimates change, both plus and minus.

It is my understanding that on Thursday or Friday of last week, the Director of OMB sent to the Congress a reestimate. I understand there will be a couple of others before April 10 in other areas. It is my understanding that the Commodity Credit Corporation was adjusted upward by about $5 billion. We have been using a similar number in our estimates since they were done in the last 2 or 3 weeks as compared to the administration which did their estimates in December and January. The CCC estimates that the committee received from CBO within the last couple of weeks are slightly above the estimates from OMB.

I think that is the status of it, is that correct?

Secretary **Block**. Yes, sir. It is up to $6.7 billion.

Senator **Symms**. $6.7 billion?

Secretary **Block**. Yes.

Chairman **Domenici**. $5 plus billion over.

Secretary **Block**. That is right.

Senator **Symms**. Thank you, Mr. Secretary.

DAIRY PRICE SUPPORT PROGRAM

Chairman **Domenici**. Mr. Secretary, I have two points.

You were quoted not too long ago on the dairy price support program that it was costing about $250,000 an hour. You alluded briefly to that program in a paragraph in your testimony.

Are you going to recommend any further change in the dairy price support program?

Secretary **Block**. I did make an address in Washington State to the Western Dairy Association. I pointed out that the dairy program is an embarrassment to the Secretary of Agriculture and the dairy industry. It is creating a serious problem for us. I announced at that time that we will be holding a symposium on March 22 and 23, in Kansas. We are inviting economists, specialists, and people from the industry to join us there to develop a series of recommendations on possible solutions to the problem we have in the dairy industry. I am not necessarily going to take any specific recommendations, but I will be reviewing all of them and then we will be coming to Congress with our recommendations.

I do feel something must be done about that dairy program.

DEBT TO EQUITY RATIO

Chairman **Domenici**. Now, Mr. Secretary, I have just one concern and word of advice. I am not terribly impressed with an analysis of the agricultural community at large that states that farmers' debt-equity ratio is superior to, and then you can enumerate whatever industries you like, because from everything I can find out, that debt to equity ratio is very lopsided on the equity side by the value of the land holdings of the farmer.

Now, there is nothing wrong with that, but you do not have to be a farmer, and I am not. My good friend, Senator Bellmon is; he will allude to this issue, I am sure. You do not have to be a farmer to know that one of the reasons that many farmers have stayed alive over the last 8 or 9 years is because their land equity value has constantly increased. Some might say, even farmers, that it was going up disproportionately.

It appears to me that along with the other problems that have been discussed, target prices, loans, adequacy of storage, that in this kind of recession, you ought to be genuinely concerned about the snowballing effect of falling land values. There are a number of farms that have been put up for bid of late. I understand Senator Bellmon will allude to one last October where there were no bidders.

Now, it seems to me that you ought to be concerned not to let falling land prices snowball, because land values are the only positive thing around that allow the loans to be made, it keeps the banks interested in turning over the loans that most of our ranchers and farmers have. In this kind of a market, if land prices begin to fall, they can fall very rapidly. Land prices could begin to be based on what people will pay for it as farmland as compared to land values that went up based, to some extent, upon speculation. I hope you are monitoring that. Your good friend, Dick Lugar, looks at the housing industry in much the same way that all of us do, and he is beginning to say that the Government has to add a margin of safety in the housing market to make sure it does not drop totally off before it starts back. Perhaps it is also time to be concerned about those falling land values from the standpoint of loans to farmers.

Now, I know you are concerned about it, but I did not want to leave the meeting without telling you that it would appear to me that in the next few months, that this is a very, very critical thing, and you ought to be watching it. And if you can do something in the interim to insure that the snowball effect does not occur, I, for one, would be very interested in whatever your Department has to propose.

Secretary BLOCK. Mr. Chairman, I appreciate those words and I think they are important to have those on the record. It is extremely important that we do not see the equity erode because that is the source of funding for agriculture.

I understand what you are saying, and we will be watching that very carefully.

PERCENTAGE OF BUDGET GOING TO AGRICULTURE DECLINING

Senator EXON. Mr. Chairman, may I make a brief statement and then a brief question for clarification?

Let me say, Mr. Secretary, that you and I have known each other for a long time. I have the highest regard for you and I do not think you are as bad a person as some people think.

I do not agree completely with my friend from Iowa who said, I thought in his statements, that he heard nothing bad about the Secretary of Agriculture when he was back in Iowa. I did hear some things about the Secretary of Agriculture when I was back in Nebraska, but I told them, and I do not expect you to comment on this, I told them that I expected the Secretary of Agriculture, like previous Secretaries of Agriculture, did not always get what they wanted or what they thought was necessary with regard to farm programs.

I would simply point out it is not generally understood that since 1940, generally on average, 2 percent of the Federal budget has gone to agricultural programs. Under the administration's budget as originally presented, it would be about one-half of 1 percent and with the revised figures, it might get back up to somewhere about 1 percent. So I would simply say we should emphasize once again that the total amount of the percentage of the Federal budget going to agricultural programs is going down and not up.

Now, having said that, I think it is tremendously important that during these most important times we have absolute truth and fixing of responsibility with regard to budgeting. Certainly, you know, Mr. Secretary, and I do, that whatever the situation is out on the farm belt today, the farmers basically are receiving very near depression level prices for the return on their products when you consider the cost of production. Therefore, I want to get back to a little bit of truth in budgeting to correct, and I think it is clear that we make this point.

BUDGET SHOWS $95 MILLION FOR ONFARM STORAGE FACILITY LOANS

The Reconciliation Act gave the Secretary the discretion to meet the needs for storage facility loans. It is correct, of course, that the administration's position last year and up during through the reconciliation process was that $50 million would be sufficient for onfarm storage facility loans. That was made known to Congress.

I would simply suggest to you that once again the administration, not you but the administration, may have been shortsighted indeed in that particular policy. However, the Reconciliation Act, to correct the record, does not set a specific level in the law at $50 million.

I would refer you to the budget appendix on page IE–39 shows disbursements for new facility 1982 loans at a level of $95 million. Why does the budget show $95 million when you maintain that it was $50 million? Is it not true in the end that this is a discretionary thing on the part of the administration and that we should have a clearer understanding of that or am I wrong?

STORAGE FACILITY LOAN OUTLAYS

Secretary BLOCK. I am trying to sort it out to get the figures.

Mr. DEWHURST. The $95 million figure is the way the CCC accounts for its money. It accounts for loans actually disbursed in fiscal year 1982. So the budget presented for 1982 contemplated $50 million in new loans and checks issued for loans totalling $45 million committed in prior fiscal years. I am sorry if you think I have misled you.

The point that I am making is that the funding level is discretionary in the law. The Senate report supporting the reconciliation supports the budget number, but it is not a legally binding number.

Senator EXON. No, I do not think you meant to mislead me, or the committee either. But these are complicated matters.

I saw a release from the Department of Agriculture that kind of indicated that there was not anything you could do about it.

Mr. Dewhurst. It is $50 million, and that is it.

Senator Exon. And to answer my question, would you not agree that if the administration wanted to, and I use that term because that includes an awful lot of people, if the administration wanted to, that they could go up to $95 million on on-farm storage facility loans, without any change in the law?

Secretary Block. Yes, sir.

Senator Exon. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman Domenici. Well, I do not think that is right, either.

Senator Exon. You do not think that is right?

Chairman Domenici. No, you are 98 percent right.

Senator Exon. I am a Democrat, I might be 100 percent right just once.

You know, Mr. Chairman, the statement that I just made has been cleared with your side of the committee, the Republican side of the committee,

Chairman Domenici. Wait, so you will not be angry.

Senator Exon. I am not angry. I am just trying to get some truth in budgeting.

Chairman Domenici. I am going to tell you, you are right, but the $95 million is not even a limit.

The recently enacted farm bill supersedes the Reconciliation Act, and the farm bill provides for a mandatory program with no limit. That $95 million limit is superseded by the new farm bill, the program is still discretionary, in the sense that the Secretary of Agriculture may have to go in the field and find out if storage is needed. If it is needed, the Secretary is mandated to do it, and there is no limit.

So, excuse me, maybe you are 99.99 percent right. I do believe you are generally correct.

Senator Exon. Thank you.

Chairman Domenici. Senator Quayle, do you have any questions?

COMMODITY CREDIT CORPORATION REESTIMATES

Senator Quayle. Just a couple. This may have already been answered, Mr. Chairman.

The $5 billion reestimates that were released over the weekend by OMB Director Dave Stockman, does this directly relate to the $5 billion in reestimates for the CCC that you talked about?

Secretary Block. Yes.

Senator Quayle. Is that the $5 billion that you talked about?

Secretary Block. It is.

Senator Quayle. Why was that over $5 billion?

Secretary Block. The figures that we were using were old figures based on a crop forecast in the early fall. We used those throughout the work on the new farm bill. Once we had a new farm bill, those same figures went into the budget. However, with the big crop and heavy draw, farmer-held grain reserve loans, and the dairy program costing more than we had projected before, it all adds up to more outlays than we had originally projected.

Senator **Quayle**. Do you believe that there will be any other reestimates on the part of agriculture that will have an upward pressure on the budget?

Secretary **Block**. There will be periodic reestimates. I do not know if they will go up or down, it depends on crop conditions and market outlook.

Senator **Quayle**. What factors would lead to a downward pressure?

Secretary **Block**. Stronger agricultural prices, and farmers willing to——

Senator **Quayle**. Do you see that?

Secretary **Block**. I cannot predict it, but it is a possibility, if there are cropping problems anywhere in the world, including the United States.

DIFFICULT FOR AGRICULTURE IF INTEREST RATES REMAIN HIGH

Senator **Quayle**. What kind of impact on the budget from an agricultural perspective? What if we have interest rates continue at current levels?

Secretary **Block**. It is going to be very difficult for agriculture, because agriculture is a heavy borrower for operating expenses. Given current interest rates, agriculture just does not make enough money to pay back the loans and the interest, too. It is going to be very difficult.

Senator **Quayle**. So the continuation of high-interest rates would have an adverse impact on the budget, from your perspective, right?

Secretary **Block**. Yes, sir.

Senator **Quayle**. Could you outline what is going to happen to our agricultural community, if in fact interest rates do not come down and stay down? The people in Indiana, the farmers that I talked to, point to this. They do not like the depressed prices, and when you get down to the bottom line, for some of the younger farmers, the refinancing is not there.

What is going to happen to the farm community if interest rates do not come down?

Secretary **Block**. If interest rates do not come down, we are going to have more farmers in financial trouble than we have today. If commodity prices do not go up to compensate for these high-interest rates, it is going to eat away any of the equity of agriculture in another year.

I am optimistic, the last half of the year we are going to see some improvements.

Senator **Quayle**. The last half of this year you think we will see some improvements?

Secretary **Block**. Yes, sir.

Senator **Quayle**. Can we wait that long?

Secretary **Block**. We do not like to wait that long, but if we do not see substantial improvements, I [illegible]ink we are going to wait that long. We just hope that it happens, that is all.

EXPORTS IN THE SHORT TERM ARE DOWN

Senator **Quayle**. Is there anything that can be done to improve our exports in the short term? I notice they are down as far as the dollar value.

Secretary **Block**. The dollar value is down. If there is something that we can do that we are not doing, please let me know. In the short term we are trying to do everything that we can, and in the long term we are trying to build ourselves as a reliable supplier in the world market.

Senator **Quayle**. The short term does not look very good for the farmer, does it?

Secretary **Block**. No, sir.

Senator **Quayle**. I agree. Unfortunately.

Thank you, Mr. Chairman.

Chairman **Domenici**. Senator Chiles?

USDA CREDIT ACTIVITIES

Senator **Chiles**. Mr. Secretary, it was not covered in your statements today, but I note that in Farmers Home you have cut direct loans from $3.7 billion to $1.1 billion, which is a 70-percent cut, and you have cut the loan guarantees from $5.4 billion to $3.1 billion, which is a 43-percent cut.

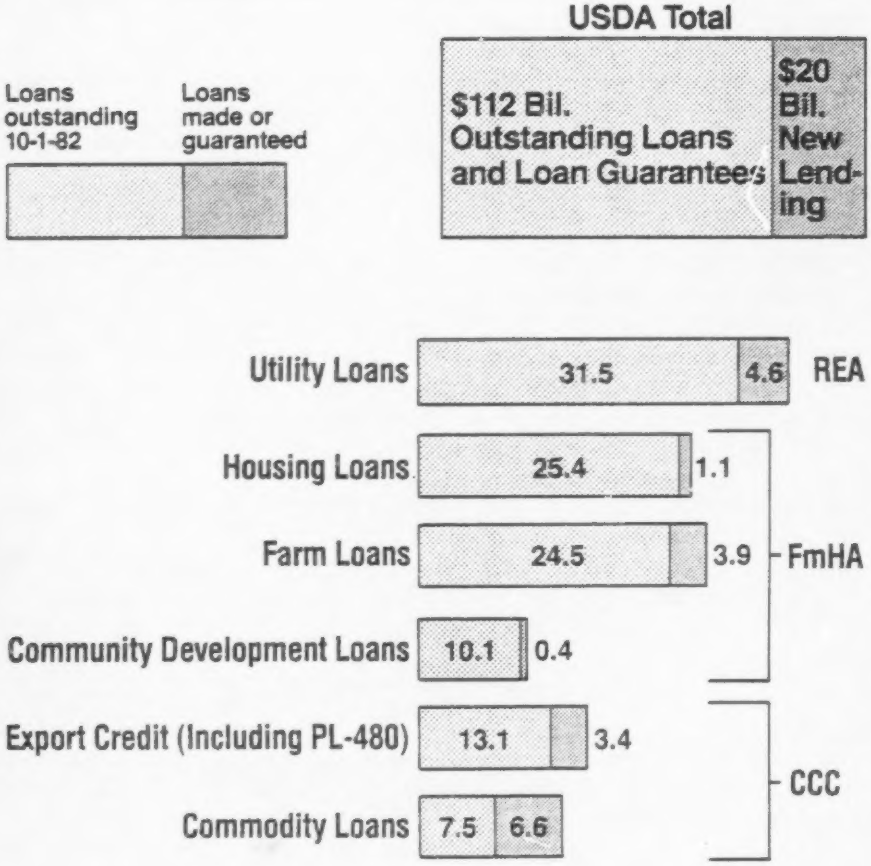
I notice in your statement where you talk about exports, how much they count in jobs. When we help somebody in rural America build a home, we help create a job, too, do we not?

Secretary **Block**. Well, that is true. We do create a job. I have a short chart I would like to show you and submit for the record.

[The following was subsequently supplied for the record by the Department of Agriculture:]

Distribution of FY 1983 USDA Credit Activity

(Dollars in Billions)



Secretary **Block**. This chart is descriptive of the lending activities of the Agriculture Department. This represents the distribution of fiscal year 1983 credit activity. Even though we are not increasing some of these amounts of new money being loaned, especially in some of the housing areas, as much as some people might suggest, we are still going to add to our total loans and loan guarantees some $20 billion of new lending. We are already at $112 billion, and we are adding $20 billion on top of that. We cannot keep expanding the amount of loans and loan guarantees that the Federal Government is responsible for.

If you wonder where the money is going out, it is in farm loans and operating loans, primarily. I feel it is important to have operating loans for the farmers to try to keep them in business in these difficult times.

So percentage wise, there is probably as much of an increase there as any place.

There is a substantial increase in commodity loans, but that ends up in the farmers pockets, too.

In the housing loans, I admit that we do not see an increase. I would also concede that if we made the loans, we would probably build more houses which would create jobs. It can be argued that we should do that, but it can also be argued that the Federal Government has gotten itself into a position where it is lending and guaranteeing more loans than it should.

Senator **Chiles**. Well, a 70-percent decrease in 1 year strikes me as being a little heavy.

Secretary **Block**. Well, the decrease is the amounts that had been lent from the past year. However, the amount of money still loaned out is still on the upswing, and that is really what counts.

OSCEOLA NATIONAL FOREST LEASES

Senator **Chiles**. But again, what we are talking about now is putting more pressure on the credit markets, and here we have created, in effect, programs where people are building these homes, and doing these things, and suddenly, with no prior signal, so to speak, you cut 70 percent from that; certainly it does have some effect. There is no doubt about that.

But at a time when we are in a recession, we have tremendous unemployment, and then you jerk that rug out of there, I can tell you in rural America, if this goes through, you will exacerbate the unemployment problem tremendously.

Just on a matter closer to home with me, I wrote you on February 4, concerning some stipulations for leases in the Osceola National Forest. I do not know whether that is something that you have ever seen or not, but I haven't received a reply yet.

I wonder if you would check on that for me? It has been a little over 1 month.

Secretary **Block**. Yes, sir, we will check on that right away.

Senator **Chiles**. Thank you.

[The following was subsequently supplied for the record by the Department of Agriculture:]

MARCH 9, 1982.

Hon. LAWTON CHILES,
U.S. Senate, Washington, D.C.

DEAR SENATOR CHILES: We have given careful consideration to the points raised in your February 10 letter requesting review and reconsideration of the Forest Service stipulations for prospective phosphate mining on the Osceola National Forest.

With reference to your concern about a lack of technology to restore wetlands, in particular hardwood swamps, we would point out that stipulation No. 5 prohibits mining the existing watercourses or the associated bottomland hardwood swamps of Deep Creek, Robinson Branch, and Falling Creek, as shown on the map. Neither mine waste nor erosion will be allowed to encroach on these valued components of the forest ecosystem. Furthermore, to minimize impacts from mining nearby land, a naturally vegetated buffer zone is to be retained. These requirements will, we are confident, provide the protection needed to the stream and swamp wildlife habitats.

Taken together and applied in an integrated way, we believe the present stipulations (with those to be added in mining and reclamation plans if and when leases are issued) will assure long-term uses and management consistent with the purposes for which the lands were acquired or are being administered, while also permitting the substantial values represented by the phosphate deposits to be realized.

Sincerely,

JOHN R. BLOCK, *Secretary.*

REESTIMATING CCC FARM PROGRAM OUTLAYS

Senator CHILES. I understand that you are reestimating your CCC farm program outlays for 1982 and 1983, Mr. Secretary. Are you going to do that for 1984 and 1985 as well, in your reestimates? CBO seems to think that those numbers are low, too.

Secretary BLOCK. We have not done it yet, but it will be done at a future time.

Senator CHILES. That will be done?

Secretary BLOCK. Yes, sir.

Senator CHILES. Thank you.

Senator KASSEBAUM [presiding]. Senator Boschwitz?

PROTECT EXPORT CONTRACTS AGAINST EMBARGOES

Senator BOSCHWITZ. Mr. Secretary, Senator Quayle asked you if there was anything that you could do to bring about greater exports, and as you know, exports have been a large part of our farm sales in the last few years, rising in a decade less than $7 billion, to over $43 billion.

One of the things you asked, if there is anything that could be done. Is there some way that we could grant the Russians, for instance, assurance that in the event that they purchased something, that what at least they had purchased would not be subject to an embargo?

Now, I believe it is 8 million metric tons that would be exempted if an embargo were to be imposed. I believe the Russians purchased approximately 13 million tons, is that approximately correct?

Secretary BLOCK. Yes, sir.

Senator BOSCHWITZ. And that the shipments have been, the last time I asked, about 6½ million tons, so now perhaps they are up to 7?

Secretary BLOCK. That is about right.

AGRICULTURAL EMBARGOES SERVE NO PURPOSE

Senator **Boschwitz**. The contracts that exceed 8 million tons are not protected against the possibility of an embargo. Is there something that could be done. Is there something that the administration would be willing to do to protect whatever contracts, what do they call that, crossover, that you cannot crossover the contract, perhaps that is not the right term, so that what is purchased cannot be embargoed?

I noticed recently that Secretary Haig, sometimes after a hearing that you and I participated in, said that embargoes have not been useful, that agricultural embargoes have served no purpose, other than to be costly to our economy, they have not prevented the Russians from obtaining whatever supplies they needed elsewhere, and as a matter of fact, have caused new supplies to emerge in other nations that have been able to take some of the market, having the assurance that they would be able to keep some of the markets, have expanded their production.

What is the opportunity, Mr. Secretary, to prevent contracts that are being made, from being crossed over, or is there some type of assurance we can give those who buy, that embargoes, whether they be the Russians, or anyone else, that embargoes will not be imposed against them in contracts that they have?

NEW SOVIET GRAIN AGREEMENT

Secretary **Block**. Well, there has been different suggestions on ways to deal with this, and I think everyone seems to have a different idea.

Some feel that a new grain agreement with higher figures in it would protect and provide assurance for a greater amount of grain. There is talk about the possibility of some kind of an agreement that contracts that are made far in advance would stand. They could be a year or more in advance. However, we want to be sure that the President does not lose his prerogative to do what he thinks he needs to do, depending on the situation. I am not sure I know the answer to it, but before we decide what we are going to do, I think we have to sit back and think about what would be the most desirable situation for the President. We do not want to put him in a position that he cannot act appropriately at the time. It may not be the Soviet Union, it could be someone else.

Senator **Boschwitz**. I understand.

Mr. Secretary, really what we are asking is the same kind of assurances be given an additional 5 million tons that are purchased, that now exist for the original 8 million tons.

Secretary **Block**. Are you thinking about adding to the ink, is that what you are suggesting?

Senator **Boschwitz**. That is right, sure.

Secretary **Block**. It has not been discussed at least that way, Senator. It is worth looking at.

Senator **Boschwitz**. That certainly would be a means of increasing exports which, as Senator Quayle noted and you confirmed, at least if dollar volume were down and if tonnage were down——

Secretary **Block**. The tonnage is up now. However, I am not inclined to necessarily concede some agreement like that would increase exports outright. Maybe a long-term policy or an understanding might, but just to do it on a piecemeal basis of adding 5 million metric tons is not the answer. I am not so sure it would be because we have seen the Soviets in our markets heavily lately, and they have been strong buyers. You know the administration has not done anything to stop trade. I think, as long as they are willing to behave, they have absolutely nothing to worry about. Furthermore, I think they know that.

STORAGE FACILITY LOAN PROGRAM

Senator **Boschwitz**. I agree with you that a long-term policy certainly is the most desirable thing, and just responding to what can be done in a short term, we certainly could do that.

May I ask you one more question, Mr. Secretary?

You spoke earlier today, I understand, about the farm storage facility loan program. You are mandated to operate a program where the storage seemed to be deficient. Many farmers in Minnesota tell me that they would be willing to participate in the acreage reduction program if they could afford to build additional storage so that the grain could enter the reserve program.

We in Minnesota are at the end of the transportation line so that we have greater reserve or greater storage than perhaps some other farmers. In this light, Minnesota is short of storage space.

Would you be willing to provide more than the $8 million for the program to meet this particular need if we are to make the set-aside programs operative and more effective?

Secretary **Block**. We are going to take a look at this closely and if there is a demonstrated shortage of loan money, there very definitely is a possibility we could make some arrangements to handle the additional needs, Senator.

Senator **Boschwitz**. Thank you, Madam Chairman.

Senator **Kassebaum**. I believe Senator Exon has one brief question because Senator Bellmon is the next witness and was due on at 11 o'clock.

RENEW SOVIET TRADE AGREEMENT

Senator **Exon**. Thank you.

Mr. Secretary, let us talk for a moment and get your ideas about the trade with the Soviet Union. As you know, we had a 5-year agreement which I believe, if I remember correctly, it was extended by 1 year by this administration. I believe that expires in September. That agreement provides that the Soviets basically can purchase 8 million metric tons of grain at a minimum and they can buy over that with our approval. September is coming up rather rapidly. I know that there is a freeze put on at the present time by the President with regard to at least beginning negotiations to extend that.

What is your view on that, and it seems to me that we could strengthen the market somewhat if we would simply start talking about and renew as soon as possible the purchase of guaranteed purchase by the Soviets of some amount of tonnage per year on grains?

Secretary **Block**. Well, probably right now, although the situation, I have to say, appears to be at least perhaps somewhat less tense internationally than it was, I do not think it has improved in my opinion enough that I would not think that this is the appropriate time to try to sit down and negotiate a long-term trade agreement.

I would say that I do not reject the possibilities that we will be able to get an agreement written sometime this year. I think that there is enough time to do it.

I would point out that last year when we worked on the renewal, Under Secretary Lodwick and Ambassador Brock spent a total of 1 day working on it and were able to wrap something up and get it done. So I still think there is plenty of time and I would prefer to work on it under better conditions than we have today.

Senator **Exon**. I would just say, Mr. Secretary, and I think you would agree, that in the absence of the renewal of that agreement, that has an unsatisfactory downward pressure on the market, therefore I would encourage you and the administration to move aggressively ahead in that particular area, make some agreements with the Soviets because, more than anything else, I think one of the problems with the market today is the uncertainty about how much grain that we are going to move overseas and that has a large extent to do with how much the Soviets are going to purchase.

I thank you, Mr. Secretary.

COST FOR ALL-RISK CROP INSURANCE

Senator **Symms**. In your testimony, you state, "We are moving aggressively to expand the all-risk crop insurance program."

I know this was passed in a previous administration, and there are many of us that voted against it, but how much is this going to cost for this Federal involvement in all-risk crop insurance?

Secretary **Block**. The all-risk crop insurance program receives 30 percent in subsidies from the Federal Government. If the program works, and if we can get farmer participation that we anticipate, it will be a substantial improvement over the disaster loans that were previously put forward across the country. Actually, even in talking with farmers in many regions, the disaster loans themselves, in some cases have been a disaster and they are just impossible to manage the loan programs.

Senator **Symms**. You do not anticipate that there will be any new costs?

Secretary **Block**. No additional cost beyond what the law permits. The Federal Government picks up about 30 percent and the rest is paid for by the farmers that take out the insurance. The insurance is supposed to be actuarially sound for the region or the State and for whatever crop that is insured. I feel it has a great possibility of satisfying the needs that we have in agriculture. I think it is done appropriately. It is true that there are some regions or some parts of the country that will look at the cost of the insurance and say it is very expensive. It probably is when they see that it is going to be in a place where the risks are very great.

Maybe it is an area that has droughts every other year, or maybe it is an area that has a flood every 2 or 3 years.

Senator **Symms**. Well, the thing that bothers me about it is it is like hail insurance on fruit crops. It has been written by private insurance companies in my part of the country. Now that that potential for getting Federal involvement is in, I find the growers saying we have to get our hands in to compete with the ones in Washington and elsewhere. So it is crowding out private insurance carriers where it used to be all private.

Secretary **Block**. This program is going to be sold entirely by private carriers.

Senator **Symms**. And the Government is to pick up parts of the premium?

Secretary **Block**. That is right. The private companies are going to handle it and carry it.

Senator **Symms**. Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you very much.

Mr. Secretary, we appreciate your patience this morning and thank you very much for appearing.

Now, we are going to excuse the Secretary and his people, and Senator Bellmon is going to be our next witness.

Could we have order, please?

Senator Bellmon, we welcome you to the budget committee. I am sure that from out in Oklahoma you are wondering what we are doing. Sorry that you cannot spend enough time to give us your views on the whole budget today. We would ask you to concentrate your thoughts and advice on agriculture. We are most appreciative that you would take time to do this.

STATEMENT OF HON. HENRY BELLMON, FORMER U.S. SENATOR FROM THE STATE OF OKLAHOMA

Mr. **Bellmon**. Thank you, Mr. Chairman. I am flattered to be invited back and see what it looks like to be on this side of the table rather than perched up there on high.

I want to express my appreciation to you and to Senator Hollings for inviting me to come and to share with you my views about the situation in agriculture, and I definitely have some views which we will get to a little later.

Before I do that, I have been looking forward to this opportunity to give the committee a firsthand report from down on the farm. But I also wanted to come here and hear from Senator Hatch, who I am sorry is not here, the theory of supply side economics. We had several months of that as I recall. My faith has faltered some and I thought perhaps Senator Hatch would renew it that this morning.

Also I hope, before the hearing concludes, that the reflow theory can be expounded upon again. Something seems to have gone haywire there. Maybe Senator Hatch or others could make this $100-billion deficit seem less ominous if they would work at it somewhat. It helps as a Republican to know that our deficit is not like others. Ours is bigger, but the interest hurts the same. At least that is the way it is down on the farm.

FAMILY SIZED FARM WELL RUN

Now, having established myself as a budgeteer of the old school, let me now attempt to establish my credentials as a practicing farmer. Because that is what I am.

Upon leaving the Senate 14 months ago, I returned to Noble County, Okla., and assumed active management of my wheat and cattle farm. This is a family sized farm run by a manager and one helper. It is a family farm with two people. We did have wheat harvesters to harvest wheat in the summertime. That is the only help we have.

Last fall, we planted 1,420 acres of wheat. We run 450 beef cows and currently have 700 yearlings on the wheat pasture. I consider my farm to be a reasonably well run, efficient farm. I am going to tell you not just about my farm. It is general for that area. Of course, Secretary Block, who comes from the Corn Belt, has a different perspective because the same economic factors may not apply in both areas.

FARM SHOWS LOSS

In 1980, which was my last year in the Senate, my farm showed a loss of $128,869. That was a 1-year loss. Interest costs—and I have to admit that I am leveraged—I owe a lot of money. That year interest costs were $218,551. I planned to go home, take over and change all that. I did, but not much.

Last year, the farm lost $102,307. We did a little better but not a whole lot. Interest went up from $218,000 to $273,300.

WHEAT CROPS

The 1982 wheat harvest is now about 90 days away. I heard Secretary Block say that the crops have not been planted. Our crop is ready to be harvested. The economics look sick again. With cash production costs running around $70 per acre, and interest on land amounting to $100 per acre, it is obvious that our expected yield of 30 to 35 bushels of wheat sold at the market price of $3.80 or even put into the reserve at $4.05 is simply not going to reach.

We have had an excellent wheat pasture year. We run one calf for each 2 acres of wheat and expect 1½ pounds of gain per head per day. The calves we bought last November weighed 427 pounds and cost 64 cents per pound. The August futures price, and that is when we will be selling most of them, in August, is now about 62 cents. So if we figure on a pound and a half per day of gain through December, January, and February, and 10 days of March, it means that it equals 150 pounds per calf or 75 pounds of beef per acre. I am not going to go through all the arithmetic. If you want it, I can give it to you.

But to sum up the bottom line, it goes down to the fact that we are going to have about $151.50 income from the wheat; the costs of land and production costs are about $170. We are going to lose about $20 per acre—those who do not graze will likely have a loss of roughly double what we will be losing. So on my farm we stand to lose about $28,400 on our wheat crop.

CALF OPERATION

On the calf operation, and again I can give you all the statistics if you want them, but the bottom line is it costs us about $365.70 to produce a weaned calf. We will lose about $92.50 on each of our steers and about $155.70 a head on the heifers.

As you know, the market price of heifers is less than on steers. So that on the total of my calf operation, 450 cows, I will show a net loss this year of about $48,460. When you add them together, we lose $28,400 on the wheat, $48,460 on cattle. We are going to expect a loss this year of $78,860. Now, then, I have to say that I can probably stand this, at least I hope I can. When I talk about the loss, that is with no return to labor and no return to management and nothing for depreciation. Before anybody reaches a conclusion that you have to be a fool to be a farmer, let me explain how we survived in the seventies.

Senator CHILES. Let me get that clear.

You do not have a factor in there for your labor or depreciation; that is in effect an out-of-pocket loss?

Mr. BELLMON. That is how much cash.

Senator BOSCHWITZ. Any land cost?

Mr. BELLMON. Land costs is in here.

That is interest. Roughly $100 an acre.

Senator Chiles. That is interest but not depreciation.

Mr. BELLMON. No; nothing for labor.

Senator BOSCHWITZ. $100 is the cost. I did not understand that. $100 per cost for the acre?

Mr. BELLMON. $100 interest on the land.

Senator BOSCHWITZ. Per year?

FARM INCOME LESS THAN WORST YEAR OF DEPRESSION

Mr. BELLMON. Per year.

If you buy it now, it is worse than that. A fair wheat farm will cost $1,000 an acre and the Federal Bank interest is 13½ percent. A lot of my land was bought back in earlier times when it was not so expensive.

Unfortunately, as I explained earlier, most farmers had to keep remortgaging their lands to get operating money; if you are farming every year and losing money, your land debt rises. As interest rates get higher then you get hit with a double whammy—higher debt and higher interest rates.

There is a little article put out by Oklahoma State University called Agriculture 1982 to 1985. It is a 3-year projection. Included is a piece by Dr. Keith Scayers of Oklahoma State University, which shows that in 1973, a banner year, no question about it, that farm income in 1967 dollars was $25.1 billion.

Now, using the same 1967 dollars, farm income in 1981, which was last year, was $7 billion. It has slumped from $25 billion to $7 billion. That is a drop off of almost 400 percent. The projection for 1982 is that farm income will be $5.8 billion.

You can see what the crunch is. We have come down roughly from $25 billion to $6 billion in the course of 10 years.

The statistics show that farm income—I am not talking about parity—that is kind of a difficult formula for me to accept, but just talking in real dollars, farm income is less, was less in 1981 than it was in the worst year of the Depression.

It is very difficult to believe that that is true. In real dollars, the farm income is less than the worst years of the Depression.

LAND VALUES

Back for a moment to the land situation. Here is a publication put out by the USDA called CD-85, Farm Real Estate Development. It contains a chart, showing both the Nation, and State-by-State land value trends for the 1 year, February 1979 to 1980, and for the 10-year period of 1970 to 1980. During the decade of the seventies, nationwide, land values went up 245 percent; 245 percent. Some States are up more than others. Iowa went up 387 percent; New Mexico, Mr. Chairman, went up 138 percent; Oklahoma went up 220 percent. Farmers were able to borrow against this appreciated in land values, and this is how we managed to keep our heads above water during the seventies.

But we have been operating in agriculture at a deficit just like the Federal Government. Each year, our personal debt against the land has risen like the national debt; each year interest on our debt is rising both because of the increased size of the loan and higher interest rates.

But now, something ominous is happening. Land values have stabilized. Land values went down during the last quarter of 1981.

You may have other testimony on that, but I believe that is a fact. As the chairman said earlier, the last farm sale that was attempted in my area nobody bid. The farmer agreed to carry the loan at 11 percent but any neighbors refused to bid. The last time I went to increase my land debt was last fall. The land bank manager said, "This is the last time. Do not come back next fall."

He has probably told a lot of other operators the same thing. So with little prospect for operating profits this year and no equity left in the land to support increased borrowing, a lot of us are staying awake nights trying to figure out how we will meet the land-interest payments when they come due next January. Unless something changes, there is no way.

LAND SALES WILL CAUSE LAND PRICES TO FALL

If farmers cannot meet the interest payments on their land, many, many farms will have to be sold over the next 12 to 18 months.

I understand the way the land banks operate, they will only loan 70 percent. So you can be forced to sell out even if you have a good equity. If you have $1 million worth of land and you want to borrow against it and you owe $700,000, they will say, no deal. Even though you may have a paper net worth of $300,000.

A glut of land sales will cause land prices to fall, further reducing farmers' equities and this will lead to even more liquidation, and cause a snowballing effect. In the national interest, this must not be allowed to happen. This is the one thing I want to emphasize today. Before this starts going on, people start getting out dumping their lands—action has to be taken to stop it, and in this way stabilize the whole situation.

The Farmers Home Administration is the best agency to deal with the problem. I am thinking about an arrangement to put second mortgages on family farms where the equity in land has reached below what the Federal Land Bank can handle but where there is considered net worth.

The agency will need increased access to capital. The farm credit system can also help but the system is private and direct governmental influence is more difficult.

Over time, agriculture must become more profitable so loans can be paid back, but in the short term governmental action to prevent economic panic may be essential.

COMPARISON OF UNITED STATES AND RUSSIAN FARMERS

There is a paradox here. The U.S. News and World Report ran a series of charts in its March 1, 1982, issue showing how much more productive a U.S. farmer is compared to his Russian counterpart. You may have seen that story, but in the United States, we have 3 percent of our population on the lands. The Soviets have 24 percent. The meat produced per person in the United States is 265 pounds. The Soviets produced 126, less than one-half as much.

The grain produced in the United States, 522 pounds per person, the Soviets produce 172 pounds. So there is no question that U.S. farmers are doing a good job; the problem is, we are not getting any profit for our efforts.

FARMER NEEDS LOWER INTEREST RATES

It seems like the better we do, the worse off we are. This is not, in my opinion, because Government-support programs are not good enough. I am not here to ask for more governmental support programs. I think the Congress did a good job in getting the program that we have on the books.

I think it is as generous as a country should support, but what we need is lower interest.

Now, I brought along a plaque I have kept as a kind of keepsake for a long, long time. I want to show it to refresh your memories.

You may not believe that this was ever possible. [Laughter.]

Four-percent farm loans. That used to be posted on fenceposts all over the rural area in trying to get people to borrow money at 4 percent. It seems unbelievable now. The last time that was possible was December 1, 1956, and yet I like to think it could happen again, and if it did, this whole situation could change and Congress can bring it about.

GRAIN MARKETING ACCORD WITH CANADA, AUSTRALIA, AND ARGENTINA

I want to suggest some things that need to be done right away.

First of all, agriculture was urged in the midseventies to get out and plant fence to fence. After those 1972 shortages when prices went up so rapidly, all the restraints were taken off and we were urged to get out and produce everything we could. Farmers did, but then as you all know we had embargoes which interrupted our access to the market. The situation is not any better right now.

We have a Secretary of State who just cannot keep his mouth shut.

I put in my statement here, the thing we need is to "zip Haig's lip." If he would stop making these careless offhand remarks about how we are going to do certain things in the way of interferring with trade, it would certainly help.

Any time he makes any of those cracks, you can bet that grain prices are going to drop. You have seen it happen? Senator Exon, and it keeps pushing the markets down.

Secretary Block, in his testimony this morning, talked about the United States being a reliable supplier. We are not. The world looks upon us as the worst source of foods, because we try to use food as a weapon, and it simply has not worked. The last three Presidents have each put in place export embargoes and Haig, when he makes these statements, even though it is not a formal embargo, it amounts to the same thing.

I have about decided to start selling short every time he goes to some meeting overseas. I believe Congress can help educate our Secretary of State.

Now then, this, I realize, is somewhat radical, I believe we need a grain marketing accord with Canada, Australia, and Argentina, so that we can balance supply and demands and to place a floor under world grain prices. These four countries: The United States, Canada, Australia, and Argentina sell about 85 percent of the total grain that is exported. Their efforts to sell grain stocks out completely each season, is bankrupting farmers all over the world.

CHEAP FOOD POLICY HURTING DEVELOPING COUNTRIES

This cheap food policy is devastating agriculture in the developing world where the 50 percent or more of the population still on the land cannot afford the imputs needed to grow food for the rapidly expanding population.

I brought along an article that was published in the Economist, the London magazine, in January 1982, and I am not going to read the whole thing or offer it for the record. It says that last summer Nigerian rice was selling retail in Lagos for 1,600 Nigerian dollars, whatever they are called, per ton. U.S. rice could be landed at Lagos for $400 a ton.

And, they say here, courtesy the U.S. taxpayer and their subsidies. So what we are doing is subsidizing our foods going into Nigeria and selling at a fourth of what they could raise it for. The result is that that country which is a rich agricultural nation and used to be a food exporter, has seen their rice imports go up from 1,700 tons in 1970 to 700,000 tons in 1979.

They have become now a food dependent nation. They are paying for the imported food with the oil they are producing but as those oil wells go dry, and they lose the foreign exchange to buy food, it is obvious that their situation is going to be tragic.

But at any rate, I wanted to show you that the impact of our cheap food is not just on our farmers, but it is hurting these developing countries where the population is growing rapidly.

Neither the U.S. farmer nor the U.S. Treasury acting alone can afford to balance world food supply with demand. If U.S. farmers acting alone now undertake to idle enough land to bring food supplies and demand into balance, we will go broke.

It will not take 15 percent reduced acreage, but 30, 40 percent, for a year or two. We will have to be idling maybe a third of our land. Because we cannot cut back. While they are increasing production without our being forced to take acreage cuts for the whole world.

COUNTRY FACED WITH A RESHAPING OF AGRICULTURE

Now, I did not come here today to whine. I knew what I was getting into when I went home and I am not sorry I did it. But I believe that we ought to recognize that in another 2 years—we probably can get by one more year without a real debacle—but if we do not change the situation within a couple of years, the United States will not be the breadbasket of the world. Food will be scarce, and the price will be sky high.

What we are facing now is a reshaping of agriculture. You all know that during the decade of the thirties and the forties and the fifties, there were 50 million people forced out of agriculture. They were phased out of agriculture and into slums. You are seeing the results in major cities now.

Again, all but the strongest are going to be forced out of agriculture. What will emerge will be a few hundred thousand large farms, many in the hands of people with outside capital.

WAYS TO HELP AGRICULTURE

Here is what I recommend to the committee, and the Congress.

First, let us quit playing games with the economy. All these theories may sound fine, but they have worked a tremendous hardship on the country. Let us get the country headed toward budgetary balance so that interest can come down.

Stop using food as a weapon. It has not worked, and it is the farmers and not the Russians who bleed.

Give up the ideological nonsense that compacting with other grain exporting countries is sinful. Food has become a world commodity and a pricing, supply management mechanism is needed, temporarily at least.

Within the next 10 years there is going to be a developing world shortage of food, but in the short run, we need a mechanism so that the food exporting countries can work in concert.

We need to expand the loan authority for the Home Administration to avoid panic selling of land.

The fifth point is that the country needs to get ready for food price increases and the consumers need to understand this and not get mad. We have had cheap food in this country for so long that when the price does start to rise, then there is very likely going to be a tremendous outcry on the part of consumers and the Congress might be tempted, or the President, to go in for further embargoes.

HIGH INTEREST IS KILLING AGRICULTURE

Consumers need to understand that they have no cause to throw rocks at the grocery store when prices begin to rise to the point that producers can have a reasonable return, so that they can stay in business. Of all the things, though, and I want to emphasize again, it is high interest that is now killing agriculture. At 4 percent, most farms would be profitable. Even at 8 percent we could manage, but we cannot manage at 15 or 20 percent. Supply side economics has meant less for the tax collector, and more, much more, for the money lenders.

Inflation is down dramatically. Interest usually ranges from 2 to 4 percent above the inflation rate, but the prime is now 10 percent above inflation.

Something obviously has gone haywire, and that something is the enormity of the projected Federal deficits.

Those who had money to loan are not willing to loan at the traditional rates because with the big deficits, they are afraid we will have another runaway inflation.

Reagonomics has been called an "unproven radical economic theory". The idea of stimulating an economic recovery by reducing deficits and increasing revenues in the depth of a recession may be equally radical. But, in my opinion, that has to be done. It has to be done not only for the good of agriculture, but for the good of the country.

Now, then, to back up what I told you about my farm, I have——

Senator **Symms**. What was point No. 2?

I was jotting those down.

Mr. **Bellmon**. The point No. 2 is, we need to stop this business of using food as a weapon. It has not worked.

But I brought along a copy of an income tax form from a person that I do not know, I got it through a foundation in Oklahoma, to see if my situation was worse than average.

This guy runs about 1,500 acres of land, down along the Texas border. He lost, in 1979, $27,000 and, in 1980, he lost $98,400. This fellow is supposed to be one of the better operators.

This foundation works with farmers trying to help them deal with their problems, and they gave it to me as a typical one. I do not think my situation is different. I think this is fairly common throughout for at least the southern wheat belt.

That is the end of my testimony, Mr. Chairman.

Chairman **Domenici**. Thank you very much.

PREPARED STATEMENT OF HON. HENRY BELLMON, FORMER U.S. SENATOR FROM THE STATE OF OKLAHOMA

I have been looking forward to this hearing partially because I value this opportunity to give the committee a first hand report from down on the farm, but also because I want to hear again from Senator Orrin Hatch and others the glories of supply side economics. My faith needs buttressing and reinforcing. Also, I hope before the hearing concludes that the reflow theory can be expounded upon again. Perhaps it can make this year's $100 plus billion deficit seem less ominous. Anyhow, as a Republican it helps to know that ours is not like theirs. Ours is bigger. And somehow the resulting high interest rates hurt just the same.

FAMILY-SIZED FARM WELL RUN

Having established myself as a Budgeteer of the old school, let me now attempt to establish my credentials as a practicing farmer. Upon leaving the Senate 14 months ago I returned to Noble County, Oklahoma, and assumed active management of my wheat and cattle farm. This is a family sized farm run by a manager and one helper. We employ a custom combine crew to harvest the wheat.

Last fall we planted 1,420 acres of wheat. We run 450 beef cows and currently have 700 yearlings on wheat pasture. I consider the farm to be a reasonably well-run, efficient operation fairly typical of the southern great plains.

FARM SHOWS LOSS

In 1980, my last year in the Senate, the farm showed a loss of $128,869.00. Interest costs were $218,551.00. I planned to go home, take over, and change all that. I did, but not much. In 1981 the farm shows a loss of $102,307; interest, $273,300. The 1982 wheat harvest is 90 days away. The crop looks good, but the economics look sick again. With cash production costs running around $70.00 per acre and interest on land amounting to $100,000 per acre, it's obvious that our expected yield of 30-35 bushels to wheat sold at the market price of $3.80 or even put into the reserve at $4.05 won't reach.

We have had an excellent wheat pasture year. We run one calf for each two acres of wheat and expect 1½ pounds of gain per day. The calves we bought last November weighed 427 pounds and cost 64 cents per pound. The August futures price is now 62 cents. Figuring 1½ pounds per day of gain through December, January, February, and ten days of March equals 150 pounds per calf or 75 pounds of beef per acre.

Death loss is about 2 percent. We had fifteen days of snow cover when hay was fed. Veterinary and trucking amounts to about $7.00 per head (427×64=273+7+5.50=285.50 cost). 427+150=577×62=$357.74=income/calf. 357.74−285.50=$72.24 per calf. $72.24÷2=36.12 income/acre. From this deduct costs of hay, costs of building and removing electric fence, costs of driving to each field each day to check fence and if necessary, cut ice on ponds so cattle can drink.

To try to get to a bottom line:

Take 30 bushels of wheat at 4.05 per bushel (per acre)	$121.50
Credit for wheat pasture	30.00
	151.50
Less land and production costs	170.00
Loss/acre	21.50
	×1,420
	28,400

The economics of my cattle operation are more complicated. You may not want the details. I have improved pasture—bermuda grass. We run one cow on two acres and fertilize twice using a total of 300 pounds per acre of 34-0-0 which costs $140.00 per ton.

2 acres×$500.00/acre=$1000/cow×13.5 percent	$135.00
Bull and vet costs	10.00
300 lb fertilizer×$7.00/cwt	21.00
Interest at 16 percent on $450.00 cow	72.00
Winter feed=$80.00/cow	80.00
Annual cost/cow	318.00
85 percent calf crop weaned	47.70
Cost per calf weaned	365.70

Loss: $92.52/head on steer calves; $155.70/head on heifer calves.

Half are heifers which weigh 50 pounds less and bring $8.00/cwt less than steers.

Figured out another way:

450 cows × 85% calf crop=382 calves weaned. ½ (191) are steers wt. 425 × 64+7 (home value)	$54,530
Heifers wt. 375×56=191×210	40,110
	94,640
450 cows × $318 annual cost/cow	143,100
Annual loss on cow operation	48,460

Loss: 28,400 on wheat—48,460 on cattle=$78,860. Total can stand this result. This is with no return to labor and management or depreciation.

Now before anyone reaches the conclusion that farmers are fools to be in the business, let me explain how we survived the 1970's. Before I do let me show how tough the income situation is nationwide.

LAND VALUES

According to U.S.D.A. Publication CD 85, August 1980, farm land values went up 245 percent during the decade of the 1970's. I don't know why, but they did—up more in some States—387 percent in Iowa, only 138 percent in New Mexico, 196 percent in South Carolina. What farmers have been doing is increasing borrowing against their land to cover operating deficits. We have been operating at a deficit just like the federal government. Each year our personal debt against the land has risen like the national debt. Each year interest on our debt is rising both because of the increased size of the loan and higher interest rates.

Now land values seem to have stabilized. Apparently they went down in the last quarter of 1981.

When I increased my land debt last fall the Land Bank Manager told me, "This is the last time. Don't come back next fall." He has probably told lots of other operators the same. So with little prospect for operating profit in 1982 and no equity left in the land to support increased borrowing, I'm staying awake nights trying to figure how I will meet my land interest payments when they come due next January. To coin a term, "There ain't no way," without outside income.

LAND SALES WILL CAUSE LAND PRICES TO FALL

If farmers cannot meet the interest payments on their land many, many farms will have to be sold over the next 12 to 18 months. A glut of land sales will cause land prices to fall, further reducing farmer's equity. This will lead to even more liquidation—a snowballing effect. In the national interest, this must not be allowed to happen.

The Farmers Home Administration is the best agency to deal with the problem. I'm thinking about second mortgages for family farmers whose equity in land is gone. It has the trained people, but the agency will need increased access to capital. The Farm Credit System can also help, but the system is private and direct governmental involvement is difficult.

Over time agriculture must become more profitable so loans can be paid back, but in the short term governmental action to prevent economic panic may be essential.

There is a paradox here. U.S. News and World Report ran a series of charts in its March 1, 1982, issue showing how much more productive a U.S. farmer is compared to his Russian counterpart. Clearly, such performance rates some reward, but the fact is the better we perform—the worse off we are—why?

GRAIN MARKETING ACCORD WITH CANADA, AUSTRALIA, AND ARGENTINA

Not because government support programs are not good enough. I believe the farm program Congress passed last year is about as generous as the country can or should support. What farmers need is:

Lower interest. At 4-percent interest agriculture would now be profitable. Congress can help.

Free access to world markets with no careless political meddling.

Zip Haig's lip.

The last three presidents each declared export embargoes. Haig amounts to an embargo. Anytime he makes some careless threat of embargo markets crash. I have about decided to sell short everytime he goes to a meeting overseas.

Congress can educate the Honorable Secretary.

We need a grain marketing accord with Canada, Australia, and Argentina for them to share in reducing planting to balance supply and demand and to place a floor under world grain prices.

These four countries sell about 85 percent of the total grain exported. Their efforts to sell grain stocks out completely each season is bankrupting farmers all over the world.

CHEAP FOOD POLICY HURTING DEVELOPING COUNTRIES

This cheap food policy is devastating agriculture in the developing world where the 50 percent or more of the population still on the land cannot afford the inputs needed to grow food for the rapidly expanding population. Nigeria is a case in point.

Neither the U.S. farmer nor the U.S. Treasury acting alone can afford to balance world food supply with demand. If U.S. farmers acting alone now undertake to idle enough land to bring food supply and demand into balance, we will go broke. We would not see a modest 15 percent reduced acreage, but 30–40 percent, for a year or two. The U.S. Treasury cannot afford to pay adequately to get the job done.

COUNTRY FACED WITH A RESHAPING OF AGRICULTURE

I did not come here to whine and complain, rather simply to tell you how it is down on the farm and to say straight out that another two years like the last two and the U.S. will no longer be the bread basket of the world. Then food will be scarce and sky high. We are facing a reshaping of U.S. agriculture as all but the financially strongest are pushed out.

Here's what I recommend to Congress and to this Committee:

1. Quit playing games with the economy. Get the budget headed toward balance so interest can come down.
2. Stop using food as a weapon. It doesn't work and the farmers, not the Russians, are hurt and bleeding.
3. Give up the ideological nonsense that compacting with other grain exporting countries is sinful. Food has become a world commodity and a four nation supply management mechanism is needed temporarily at least.
4. Expand loan authority for Fm, H.A. and F.C. administration to avoid panic selling of land.
5. Get ready for food price increases and resulting consumer anger. Americans are spoiled by cheap food. Help make them understand they have no cause to throw rocks at the grocery store if prices rise enough to provide producers a reasonable return so they can stay in business.

High interest is killing agriculture. Supply side economics so far has meant less for the tax collector and more, much more for the money lenders. Inflation is down dramatically. Interest usually ranges 2–4 percent above the inflation rate. Prime is now 10 percent above inflation. Something is haywire, and that something is the enormity of the projected Federal deficits.

Reaganomics has been called an "unproven radical economic theory". The idea of stimulating an economic recovery by reducing deficits and increasing revenues in the depth of a recession may be equally radical.

I am convinced it must be done for the good of the country of which agriculture is an important part.

Chairman DOMENICI. Senator Kassebaum?

PUT MORATORIUM ON FORECLOSURES

Senator KASSEBAUM. As always, Senator Bellmon, you managed to be very clear and concise, and certainly presented some very constructive ideas.

Senator Boren has introduced legislation that would call for a moratorium on any foreclosures through the Federal Home Administration.

Would you be supportive of that effort or do you feel it would be better to try to restructure a loan program?

Mr. BELLMON. I am not sure I favor a moratorium.

There are undoubtedly operators who with very good cause are going to have to get out of the business. There have always been a movement of people out of agriculture, and there will continue to be.

A moratorium which said that they cannot foreclose on anyone, would sweep in the ones who just are not ever going to make it under any set of circumstances, but I think what needs to happen is Farmers Home needs to have available the resources so that they can operate realistic policy of supporting those operators whom the local Farmers Home Administration feel are doing a good job, and could survive under more normal conditions.

Senator KASSEBAUM. Can't Farmers Home and Federal Land Banks rollover existing loans or extend a second mortgage?

Mr. **Bellmon**. I do not believe there are any legislative restraints on how the Federal Bank runs their operation but I think there is a limit, I think it is 85 percent.

Most of them are trying to stay around 70 percent. So they have some flexibility and Congress might need to encourage them to use that flexibility.

Senator **Kassebaum**. The Federal Land Banks?

Mr. **Bellmon**. Right.

The Farmers Home Administration is sort of a lender of last resort.

Senator **Kassebaum**. Yes.

Mr. **Bellmon**. And they have had reasonably liberal policies, so I really am not critical of either institution. But I think it would be wrong to say that the Federal Land Banks, that they cannot foreclose on anyone.

DEFICIT RESULTED FROM TAX CUTS

Senator **Kassebaum**. You certainly bring great knowledge of the budget problems that we face. I would like to ask for some of your thoughts on a few budget problems. You may not wish to comment specifically. Obviously we all are cognizant of the fact that we need to get the deficit down.

Do you believe that we are going to have to address the revenue side of the budget as well as the expenditure side?

Mr. **Bellmon**. Well, clearly, the Congress needs to restrain itself in spending. We, in this committee, fought that battle for years, and I feel that much of the—much that the administration has done in holding down spending is good. It is extraordinarily good but the problem, in my opinion, was that the tax cuts were put in place too rapidly and that this deficit resulted, and resulted as a result of that.

Interest rates have stayed high and that is what is killing agriculture. In spite of what Mr. Block said, we operate with large amounts of borrowed money. When interest goes up, as it has or stays up as it has, then agriculture is wounded.

Now, then, it is not only the fact that we have a deficit for this year. The problem is that money lenders look at what the future is likely to bring and when we are looking at what, $160 or $170 billion for the next 2 or 3 years, that panics the lenders. Because they know that is ultimately going to bring on more inflation.

AMERICAN AGRICULTURAL GROUP FORMED

Senator **Kassebaum**. It was a little disheartening to hear the Secretary say that while weather has been both a blessing and a curse to farmers, that somehow this might be the only solution we have for the farm problem right now.

There is a new group in Kansas that recently was formed. That group is threatening to burn crops, not only theirs but neighbors' crops, as well. There is a real militant mood developing. I think it is going to take initiatives such as yours to produce some concrete plans with which we can deal.

Mr. **Bellmon**. You are exactly right.

Farmers are not by nature militant or radical people. They generally tend to be long-suffering people, but they have been suffering for a long time.

We have had several bad years and particularly the younger farmers who did not have an opportunity to build up an equity in their lands, are in very precarious positions. I am talking about good young farmers, those who are working hard and efficiently, and maybe work off the farm to make living expenses, because they cannot handle it under these conditions and, those are the ones who have formed this group, the American Agricultural Group.

Senator KASSEBAUM. Now, there is the Farmers Liberalization Army, which has gone a step further than the AAG.

Mr. BELLMON. I might say one other thing.

I was in Kansas last weekend and talked with a fertilizer and grain dealer, one of the larger ones in the State who is very complimentary of the Congress for having written the farm bill. He said, without that bill, he would not be in a position to provide credit to his customers, that number in the hundreds.

But with the support which has been put under grain prices, he is going to go ahead and finance a crop for his customers and I assume that is a fairly common attitude among those who supply producers.

Senator KASSEBAUM. Thank you, Senator Bellmon.

DEFER OR REPEAL FUTURE TAX CUTS

Chairman DOMENICI. Senator Bellmon, I am going to yield to Senator Exon and then I have to leave for 10 or 15 minutes. I hope to return before the remaining members are finished.

If Senator Exon would just permit me to raise one point, you made a statement about further cutting the budget and even raising revenues in the midst of a recession.

Could I correct that?

I do not think there are any proposals that would do exactly that, unless we are talking about delays in timing of when we pass the legislation.

The consensus of the committee is concerned about the fact that those deficits will be there even after the recession is over. The hope is that certainly before the end of 1982 we would be out of the recession and we are projecting 1983, 1984, and 1985 as growth periods.

I think the anomaly is that with economic growth, with interest down, with inflation down, we have deficits of the size to which we are referring, and it is those deficits that we are led to believe by most economists will either render the projected growth inoperative or will cause the recovery to be ill fated and short lived.

I do not think for the rest of 1982 anyone is seriously proposing to reduce dramatically the 1982 budget or dramatically increase taxes for the rest of 1982.

I just want to make sure that we understand.

Mr. BELLMON. Mr. Chairman, I was not meaning to infer that new taxes ought to be put in place.

What I was concerned with is that some of the tax cuts may need to be deferred or perhaps changed. Perhaps I should have put the word increasing revenues rather than taxes. I would not favor tax increase except it seems to me that some of the future tax cuts may have to be put off or maybe even repealed.

Chairman DOMENICI. Thank you very much.

Senator Exon?

Senator EXON. Thank you very much, Mr. Chairman.

Henry, I cannot tell you how delighted we are to have you back. Were it not for the fact that you decided not to come back with us again, you would be sitting up there instead of the present chairman.

I would just tell you that under your tutelage, you did an excellent job and we are delighted to have him sitting there in your stead.

I say that, if we have to have somebody from that side of the table be the chairman——

Mr. BELLMON. Well, Senator Exon, let me say that I think you're lucky to have Senator Domenici. I think he has done a much better job than I could have——

LIQUIDITY AND BALANCE SHEET OF FARMERS GETTING TIGHTER

Senator EXON. You have never been controversial up until now, so let us not get off on that.

I have listened to a lot of people testify before this committee and I have never heard anybody make more sound sense than you have here.

I just wish that we could have you sit down for 15 minutes with the President of the United States and say to him what you said to us here, because I am very much concerned about what is going on out there today, and no one has better enunciated the difficulties of the farmers than you have today.

You know, I used to tell a story that used to be funny, a bad news/good news story that tells about the farmer coming in to see the banker in the spring sowing season to borrow some money, and he had been in the year before, and he could not reduce the principal, but he was able to pay the interest and he came in, and his bad news/good news story was that, "I cannot pay anything on the interest or the principal this year, but, Mr. Banker, the good news is that I have decided to go along with this bank for 1 more year."

That is not funny any more. Because what the banker is now saying is, "Oh, no, you are not going to go along another year because of the interest figures that you cited."

I was quite taken aback, as I am sure you were, with the presentation that was made by the Secretary of Agriculture, that indicated there was great liquidity out there in our farming structure when just the opposite is true.

Tell me if you think this is an accurate summary of the situation.

There is no shortage basically of available cash in the banks to be loaned to farmers, that is not the problem, it has a combination of what you have spelled out very well, the tremendous high-interest rates and basically the bankers saying to the farmers in one way or another, and I am hearing this increasingly frequently these days, that I cannot make that loan, or please go to some Government agency, even to customers who have been with that bank for a long, long time.

The basic situation is that the liquidity and the balance sheet of the farmers are getting more and more tight. Basically, they are loaning, obtaining loans over a number of years for operations, by mortgaging farmlands, and they are getting to the place where their general concern in the banking fraternity that should land values—not just stay steady, but should land values drop by 15 or 10 percent, we would have a substantial number of our family operations with a negative balance sheet and therefore they would be out of business automatically.

Is that a fair summation of what is going on today?

FARMERS DO NOT HAVE EQUITY POSITION TO JUSTIFY LOANS

Mr. **Bellmon.** That is exactly right, Senator Exon.

Bankers, by and large, have a high degree of competence.

They like to help make loans and get people into business. Many of them are making loans that in good banking terms are not any longer justified, but they cannot keep on doing this very long.

In preparation for this testimony, I talked to three or four bankers about their local situations. In one town, it is only a town of about 1,000 with just one bank, this banker figures that he has six loans on the books that he cannot carry another year. He will have to force them out of business. Already most of them have Farmers Home loans, so unless they pick them up, they are going to have to quit.

All of them had in their portfolios, loans that they know are now hopeless unless things turn around dramatically, which no one really expects.

It is also true, as you say, that a lot of those rural banks have a lot of money. I was surprised that this one bank is putting money in what are called bankers' assurances. Money that goes on to—well, for instance, Caterpillar in Peoria, whether or not they know it or not. They may have millions in the bank to loan, but that bank is not going to loan to farmers because farmers do not have the equity position to justify the loans.

So what you are saying is right, the situation is getting to the place where no matter how much a local banker wants to help his customers, he just cannot do it.

BANKERS NOT INTERESTED IN TYING UP MONEY

Senator **Exon.** To followup on that, is not it also true that with the severe recession and the general uneasiness with regard to the economy right now, as evidenced by the volatile situation with regard to short-term insurance rates, that everybody wants to be liquid today; they do not want to tie their money up for mortgage money in the out years and certainly most people that know farming operations, recognize and realize that the loan that you make to a farmer traditionally are not liquid loans. Because they are betting and gambling on too many things happening.

And with the plunging market conditions, and with not too optimistic a chance for the future, I would suspect that bankers who have the responsibility to keep their assets liquid, are just not interested in tying up even for a year, the agriculture today that does not hold a strong chance of seeing quick recovery.

Mr. **Bellmon**. Again, Senator, you are right on target. The bankers I know are now making their loans come due every 3 months. You cannot get a 12-month loan. Even though you go in, in August or September to buy fertilizer, that loan comes due 3 months later. He will not wait until July for next year's harvest. Of course, there is another side to it; that gives the banker the opportunity to add on his interest and start charging on interest on interest. He knows very well what he is doing. But even 6-month loans are not common any longer. They are 3 months.

SUPPORT PRICES

Senator **Exon**. I was very much impressed with your discussion once again of the major—the few major exporting countries with such things as grain.

I suspect that is also true with livestock, although I haven't seen the recent figures on that. You, for one, have always been basically against high support prices and you and I have never fully agreed on what would be a realistic support price.

One hundred percent of parity obviously is something we would like to have but we cannot guarantee that at the Federal level.

You suggested that we not raise support prices. You also outlined very clearly the rather tough situation that faces the food producers around the world today, with regard to selling their products at a price that gives them some return on their investment. You mentioned Nigeria, I believe, with regard to rice.

I heard Russell Long say the other day that the Japanese rice farmers are subsidized by their government at a higher figure than what they could buy rice for, on the open market.

Now, we certainly know a similar situation is true in the common market countries today. I guess what I am saying is, you have Nigeria, and many other countries, you have the common market countries, and you have Japan, and I have mentioned with Japan and the common market countries, the major trading partners of the United States, except with regard to oil; how are we going to have our family sized farmers prevail in this kind of a climate?

It is fine to talk about the Government not supporting them, and yet we have our major military allies and security allies around the world heavily, heavily subsidizing their farm producers and we are proud of the fact that we do not do that in the United States of America.

While I generally agree with your theses, when it comes down to what we are going to do about it, does not the high subsidies, unreasonably high subsidies being fostered by the Government of Japan place us into a situation where we are going to have to do something like you said, getting together with these countries and maybe raising the prices or possibly increase our support prices at home for the short term, if not the long term?

WEIGHT AGREEMENT WITH AUSTRALIANS AND CANADIANS RECOMMENDED

Mr. **Bellmon**. Well, Senator, artifically bolstering farm income by support prices is, in my opinion, a snare and a delusion.

I am talking, now, about loans.

The problem is, if you set a loan, let us say we set $5 a bushel on wheat and $3 on corn, but let us say we went to $5. Without having any accord with the Canadians or Argentinians, all they do is go out to raise all the grain they can and sell it for $4.75, so we sit here with our warehouses getting fuller and fuller, and finally the Secretary of Agriculture owns all the grain. I mean all the world's supply of reserve grain.

You know what happened before, when we had Secretary Freeman in office?

Anytime he wanted to say where we had a few million bushels of grain go out of condition, we would sell it and the price would go down. No matter who the Secretary is, I do not believe, if he owned the grain, he could resist consumer prices to keep prices low.

This country has 3 percent farmers and everybody likes to eat so there is 97 percent consumer, so we are outnumbered. To have a government literally run by consumers setting prices of the commodities that we raise would result in low prices, then shortages, then runaway price increases.

I would much rather see us work with the Canadians and Australians to make arrangements whereby they restrain their production or set up a reserve like we have and put a floor on the cost of production of export grains.

Senator **Exon**. So I guess, then, the bottomline recommendation that you are making of where we are going to work our way out of there from a long-term basis, we are going to have to have some kind of agreement on weight with the Australians and Canadians.

Mr. **Bellmon**. That is my conclusion.

Senator **Exon**. I thank my friend from Oklahoma. I thank the chairman.

Chairman **Domenici**. I just want to remind the Senators that under the order of the Senate, we have to end this hearing at 12:30. We have two additional witnesses left, so I would hope that we could accommodate them.

Any other questions of Senator Bellmon?

Senator **Boschwitz**. Mr. Chairman, let me say that I will look into that mechanism. So I do not know that it can work, Henry, because they have not been very cooperative in the past. Perhaps it is something that we can look into. Most of them have very little storage capacity. Most of them, at least Argentina, has the ability to increase its capacity a great deal and have been through the nations of our own country, been able to increase its production.

I am not sure how cooperative they have been but we will take a look at that.

Mr. **Bellmon**. Senator, this is not a brand new idea. Senator Melcher would have considerable amount of information about this. When I was here, we worked at meetings in Ottawa and down here, had letters from Argentina, and Australia, stating their willingness to cooperate with us. The problem is right here in our own Government.

Senator **Boschwitz**. The problem is broader, of course, because such a small percentage of the world commodity now in international trade, while few countries do control what flows in its international trade; it is not like oil, where a large production of what has been produced flows in international trades out.

AGRICULTURAL EMBARGOES DO NOT WORK

One other comment, not in the form of a question, but the Secretary of State, we held some hearings recently about those, and Secretary Block testified and the White House cleared his testimony, and it was a very strong statement against embargoes.

Then Secretary of State Haig came out very shortly thereafter and said that embargoes had, indeed, or agricultural embargoes, had indeed proved fruitless, and to the best of my knowledge, in his defense, he has not come out with any statements contrary to that position. In the recent months that I have been aware of, as a matter of fact, he has been supportive of the idea that agricultural embargoes do not work.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator.

Did you have anything further?

Senator **Chiles**. Henry, I want to thank you for your testimony. I think you really bring it down to where we can understand it. We listened to so many people that gave us the micro- and macro-numbers. We really need to get it down to what it means on a working farm.

I want to tell you, you said you did not know exactly what you were getting into, but you made your decision and things did not turn out exactly like you thought on the farm.

I want to tell you it ain't been any better up here.

Mr. **Bellmon**. I can believe that.

OTHERS MAKING MONEY WITH FARM PRODUCTS

Senator **Chiles**. The one thing that I did not hear you say, Henry, and it keeps concerning me. It seems like in all of these years and, they have not been good years for farming; in fact, they have been very bad, but as I think about those years, I do not think that the fellow who transports farm goods has fared that badly over the years. I do not think the person that stored farm goods has fared that badly. I do not think that the retailer or the wholesaler or the person that cuts the meat, any of those people, have failed to keep up.

It may not have been as great for them as in other years but I do not see any grocery stores going out of business and certainly all of the other people who are in the whole operation, from the time it leaves the farm.

Now, are we ever going to get anything that better then when a farmer just has to depend on perfect weather, perfect growing conditions, a perfect market, and low-interest rates. All of those things seem to have to happen for the farmer, just so he can survive and make a profit.

Unless the farmer learns something about selling those goods, so he has some kind of share of that market that is going out there, you know, is it ever going to change?

Again, are not we going in the direction where sooner or later we will put all of the small farmers out of business, and when the corporate farm gets big enough, everyone will suffer from the loss of small farmers, including the housewife when she has to pay higher prices at the grocery store.

KEEP FAMILY-SIZED BUSINESSES GOING

Mr. **Bellmon**. Senator, let me say that I consider family size farms to be the most efficient food producing units in the world. Much more efficient than Tenaco or Gates Rubber, any of these companies that have tried to get into agriculture.

There are some, in Florida, Minute Maid does a good job in specialized areas, but talking about the livestock and grain business, I believe it will be a great tragedy for the country if we allow the family-sized farmer to be run out of business because of a crunch. I agree with your thesis that we need to take steps to keep it going.

As far as these other people making money with farm products, they do make money—but I cannot find anywhere in the New York Stock Exchange, listings of any companies that handle agricultural products that seem to be making excessive profits.

Senator **Chiles**. I am not complaining about what they are making, but I am saying that they're able, regardless of the fact that their product is selling for less, that they are able somehow to keep pace.

Mr. **Bellmon**. They do.

FARMER NOT ABLE TO KEEP PACE

Senator **Chiles**. The farmer is the only one who is not able to keep pace.

Mr. **Bellmon**. That is right. The reason I think is that there are very small number of those corporations and they keep close control on their costs, and when costs rise they raise their prices and they—and while I am sure there is no antitrust violation, they do more or less act in concert.

Senator **Chiles**. Somehow each of them are able to increase their costs, whether it is the trucker or anyone involved in getting the product to the buyer. The farmer is the one who has not found a way to do it.

What I am saying is, does not the farmer have to learn the market, does not he have to learn something about how they get together in a cooperative marketing of his products?

He is as efficient as a grower, as a producer, but he is terrible as a seller. He is a total failure.

Mr. **Bellmon**. Well, I cannot deny that——

Senator **Chiles**. He grows high and sells low.

Mr. **Bellmon**. He grows all he can and takes what he is offered.

Senator **Chiles**. Right.

Mr. **Bellmon**. For his products.

Senator **Chiles**. That is what I mean.

Mr. **Bellmon**. Well, now, Senator, Congress has given the grain growers one or two valuable tools. One is the loan. We wheat growers can go in at harvest time and borrow $3.50 on the bushel and not sell it until it gets better in a few months.

If it does not get better, then we have the Farmers Owned Reserve where we can put it for years until there is a shortage worldwide, and the price will get better.

But that does not help us with our commodities. If I have a steer that weighs 1,100 or 1,200 pounds, I do not have any option, I have to sell them because it costs me $2 a day and they get bigger and fatter, and worthless every day.

Senator **Chiles**. I saw a TV special and it criticized marketing orders. It did a real number on them. I just had to kind of think about it.

No one says how many Fords the Ford Motor Co. has to make or sell, and somehow they determine how much they are going to make or sell, depending on what the market will bear. Yet, if a farmer takes some of his crop and says, we are not going to sell it because of a marketing order, we are going to withhold that from the market, that, of course, is totally different.

Does not something like that have to be done?

Mr. **Bellmon**. Yes, I think it probably does.

But in the place where it is not a U.S. market, it is a world market, I will go back to my earlier point, that we need to work in concert with these other producers.

Senator **Chiles**. I think that made sense, yes.

Mr. **Bellmon**. Let me say also, Senator, that some imputs we use in agriculture have started coming down. The price of fertilizer is down. I bought fertilizer for $140. Last year I paid $160. Diesel fuel is down. You can buy it for 98 cents. So we are getting some reductions in our cost.

FARMERS DO NOT FIGURE ANY COST OF LABOR

Senator **Exon**. Let me make one statement.

The real reason for this is, and I think that Henry Bellmon will agree, as proven by the figures he gave this morning, he showed a loss but the farmers are the only one of that chain that you just mentioned that have never bothered to figure any cost labor. If anyone will not begin to figure any cost of labor, then they are going to have further trouble down the line.

Thank you.

Chairman **Domenici**. Senator Bellmon, we are most appreciative of your appearances.

Thank you for all the suggestions you have made to us today. We are delighted to have you as our witness.

Mr. **Bellmon**. Thank you, Mr. Chairman.

Let me just say, I count the years I spent up here, some of the best years of my life, and the people I got to know are some of the finest people in the world, so it is a pleasure to be back with you again.

Thank you.

Chairman **Domenici**. I am going to have to leave.

Senator Boschwitz will chair the remainder of the hearing.

Senator Exon, will you be able to stay for a few minutes?

Senator **Exon**. I am going to stay.

Senator **Boschwitz** [presiding]. I am sorry that we have such a short period of time.

We are supposed to end because of the trial—not trial, but because of the matters dealing with Senator Williams. It is supposed to end at 12:30, that puts us in the embarrassing situation of having very little time.

We will probably go beyond 12:30 somewhat, but we would ask that each of you summarize your statements as best possible.

Mr. Fredrickson, you are from down here in Washington, is that correct?

Mr. **Fredrickson**. That is correct, Mr. Chairman.

Senator **Boschwitz**. We will ask Mr. White, who has come from Minnesota, to speak first and, Bob, we regret that we have to ask you to summarize your testimony. But please do so, as well as you can, and if we completely run out of time we might be able to have Mr. Fredrickson back.

Go ahead.

STATEMENT OF ROBERT P. WHITE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, VAN DALE, INC., LONG LAKE, MINN., FOR FARM & INDUSTRIAL EQUIPMENT INSTITUTE, CHICAGO, ILL.

Mr. **White**. You have a complete copy of my prepared remarks, and I will cut it in half and speak very rapidly.

Senator **Boschwitz**. We will put your entire remarks in the record.

Mr. **White**. Thank you.

FARMERS AND RANCHERS IN DIRE ECONOMIC STRAITS

We are concerned, we believe the Nation's farmers and ranchers are in dire economic straits, and we believe it's time for the farmers' friends to stand up and be counted. Although it seems we try hard to deny it, the most significant economic thrust to our Nation's economic success is still the relative prosperity of our farms and ranches. When the Nation's largest industry—two of every three American jobs is associated with agriculture—cannot pay its bills from current cash flow and has not been able to do so for 2 years, the entire economy goes into convulsions just as we are experiencing today. Our total economy will not begin a long-term recovery until agriculture begins to again enjoy a modicum of prosperity—and agricultural prosperity will not occur until the prices farmers receive for their products are: One, free from national policies designed to use agricultural overproduction as a means of fighting inflation—done at the farmers' expense—two, policies which commandeer American farmers' resources as tools for foreign policy—also at the farmers' expense—three, inflation rates that drive up the costs of the inputs they must purchase; and four, interest rates that are so high as to create a severe, short-term financial emergency and threaten the long-term economic viability of our Nation's most important resource.

PROTECT FARMERS AGAINST CONSEQUENCES FROM SANCTIONS OR EMBARGOES

Our industry firmly believes that a full and productive U.S. agriculture is an absolute must for our Nation's economic and military security. This is not possible without export sales of basic agricultural commodities. Accordingly, we are pleased to see the fiscal year 1983 budget includes an increase of $4 million, to promote export sales. But the fact must be reiterated that the $4 million increase pales by comparison to the losses farmers have and will continue to suffer, unless a policy can be implemented to protect farmers from undue consequences when their harvests are used as sanctions or embargoes in foreign affairs. Although certain sections were included in the 1981 farm bill to provide such protection, the actual use has not been tested and there is reason to believe the intent could be easily circumvented. Let there be no mistake about it, no administration and no Congress, including those working on the fiscal year 1983 budget, has been able to overcome the debilitating fear of consumers' political backlash relative to domestic food price increases if exports are pushed too vigorously.

And yet, agricultural production is one renewable resource our Nation has which is currently our greatest trade asset.

CPI SHOULD NOT BE USED TO ADJUST NONFARM WAGES

It is also appropriate to speak of the use of farmers' resources in the fight against inflation. If one were to go back and review statements by economists, various administrations, and USDA, in the recent years where inflation has been of such concern, you would most likely find that food prices were significantly touted as positive or negative factors in the inflation index. Ironically, farm price trends that ameliorate the inflation index are bad for farmers and vice versa. I would like to suggest that there would be merit in not allowing any nonfarm wages or salaries to be adjusted upward by use of a CPI which included food costs as a part of the index, until prices received by farmers exceeded 90 percent of parity.

This will be a little bit disorganized because I am skipping——

Senator **BOSCHWITZ**. Where are you?

RETURN AGRICULTURE TO A BASE OF PROSPERITY

Mr. **WHITE**. I am now jumping from page 3 over to page 5 of my prepared statement.

We believe it is absolutely essential to any short term, as well as long-term improvement in our total economy, that it is imperative that agriculture be returned to a base of prosperity as quickly as possible—and a continuing national policy of cheap food for consumers is not in anyone's interest.

We, therefore, recommend the following actions be taken:

One. The farming community needs an immediate infusion of low-cost loans.

Two. Some controls on 1982 and 1983 production of nonregulated commodities.

Three. Demand an immediate removal by Japan of tariffs and and any other restrictions that inflate the cost of U.S.-produced foodstuffs or commodities to Japanese consumers.

Four. Sell whatever volume of commodities et cetera, to the U.S.S.R. and other Eastern Bloc countries for which they are willing to pay cash on delivery.

Five. Use grain embargoes or commodity-related sanctions only as the last resort—and be sure, even then, that farmers do not carry the full economic brunt of that effort.

Six. Implement Government policies that reduce inflation, lower interest rates and move to reduce the size of the Federal Government.

In an effort to cast our industry executives into a decision mode similar as possible to what the Senate Budget Committee faces, four scenarios were provided from which each respondent was to select one:

Forty-four percent said we should continue on the current—President Reagan's economic recovery program—course and hope that given time, the economy would correct itself.

Thirty-one percent felt we should make moderate policy changes—that is, accept more inflation, higher taxes, et cetera—and try to make a gradual, less painful adjustment to reducing the size of the Federal budget.

Two percent said we should make a drastic change in economic policy, accept higher inflation, et cetera, so that pain is lessened, at least for the short term.

Twenty-three percent believe we should cut projected spending, especially defense, and/or rescind all or part of the tax cuts in order to more nearly balance the budget.

ECONOMIC VIABILITY OF AGRICULTURE IMPORTANT

In summary, Mr. Chairman, there is conclusive evidence that your committee would find great concern among executives in the farm equipment industry over the critical economic situation faced by our Nation's farmers and ranchers. Our friends in the fertilizer, agricultural, chemical, and feed manufacturing industries share that concern. We cannot emphasize enough to this committee, to the Senate, and to all American and foreign consumers the importance of the economic viability of that great national asset—agriculture—which we all take so much for granted.

A significant majority of our members believe we will still have economically troubled days ahead and that reducing interest rates is the No. 1 priority to future recovery. The basis thrusts to President Reagan's economic recovery program enjoys widespread support in our industry although a strong consensus would favor taking whatever steps are necessary to reduce the size of the projected budget deficit to something less than $80 billion.

As I indicated at the opening of my remarks, I lay no claim to being an agricultural economist nor even a farmer. I am a business owner and executive who shares a direct concern, economic, and otherwise, for our Nation's agriculture.

I can tell you from personal experience that we have a relatively bleak outlook for the forthcoming year, and the year after that.

Anything that this committee and the Congress can do to help that situation will be greatly appreciated.

Within that framework, I will be glad to answer any questions that I can.

Senator BOSCHWITZ. Thank you, Mr. White. I will read your testimony in its entirety and some to the attachments to it, and perhaps we will enter all of them into the record as well, with your permission.

PREPARED STATEMENT OF ROBERT P. WHITE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, VAN DALE, INC., LONG LAKE, MINN., FOR FARM AND INDUSTRIAL EQUIPMENT INSTITUTE, CHICAGO, ILL.

Mr. Chairman, I am Robert White from Long Lake, Minnesota. Today I appear before you as chairman of the Legislative and Government Relations Policy Committee of the Farm and Industrial Equipment Institute, our national trade association, and as chairman of the board and principal owner of Van Dale, Incorporated ... a Minnesota based manufacturer of farmstead type equipment used primarily on our nation's livestock and dairy farms.

When the invitation was received to appear before this Committee, there was some reluctance to accept because we were concerned it would give the impression we are seeking government handouts for our industry. After consideration it was decided, however, that to the extent we could give encouragement to Congress to deal with the nation's economic future in a prudent and constructive way, we should and indeed would like to participate in the dialog relative to the President's 1983 budget proposal and offer what we hope will be useful observations and suggestions.

Although the Farm and Industrial Equipment Institute, to which I'll generally refer as "FIEI," is a broad product -based national organization, my remarks today will focus on economic issues related to the agricultural and farm machinery aspects of the Institute's membership as well as concerns of other agri-input industries.

It is appropriate to state at the onset that those of us who supply goods and services to America's farmers and ranchers and participate as viable business entities in the nation's total economy, do not believe the final resolution to our current and foreseeable economic woes rest in whatever budget is passed for FY'83. We do believe that the FY'83 budget can emphasize basic policies necessary for the nation's return to long-term economic growth and generally improved economic well-being.

A significant majority of FIEI member companies support President Reagan's program for economic recovery. We especially endorse the concept that the federal government has become completely too large and in its largess, it has become an unacceptable economic burden within itself. The thrust of this perception is borne out in the current dilemma wherein neither the citizens nor the economy can, nor is willing to support this largess with tax dollars. Our government today has become so large and costly it is now the enemy of individual economic progress. So, if you will, we see 1983 as a time for our nation, especially Congress as it addresses our fiscal concerns, to turn back to basic, responsible, fiscal programs.

The farm equipment industry and all other farm input supply industries are facing very bleak days and months ahead. We've already been through two years of seriously depressed sales in the farm equipment industry and it looks like 1982 will not show any improvement. FIEI publishes a report of retail sales of farm machinery and using an average of the years 1975,'76, '77, '78 and '79 as a base, we find 1980 total unit sales of eight major types of farm machinery down by nearly 18 percent. 1981 sales of the same items were down 26 percent compared with the five-year average. (See attachments "1" and "2".)

As a rule we like to see our inventories turn two or more times each year. As of this past December 31, our industry had a full year's inventory in stock on many major items. This, of course, varies by product and by company. While we at Van Dale pat ourselves on the back because we started making production, people and marketing adjustments early on, as a chief executive officer and company owner, I can tell you the picture is not rosy for any manufacturer when the industry is looking at a year's sales supply in inventory, high interest rates for financing this excessive inventory, and, all of this while our customers are having their worst economic year since the depression. As would be expected, other agri-input industries such as fertilizer, chemicals and feed manufacturers are also feeling the negative economic impact of the current farm situation. (See attachment "3".)

Before continuing with my remarks there are two clarifying statements I would like to make. First, I am a businessman and not an agricultural economist. Secondly, FIEI has traditionally left discussions of the farm economy to farmers and their respective organizations.

But frankly speaking, Mr. Chairman, the nation's farmers and ranchers are in dire economic straits, and we believe it's time for the farmers' friends to stand up and be counted. Although it seems we try hard to deny it, the most significant economic thrust to our nation's economic success is still the relative prosperity of our farms and ranches. When the nation's largest industry (two of every three American jobs is associated with agriculture) cannot pay its bills from current cash flow and has not been able to do so for two years, the entire economy goes into convulsions just as we are experiencing today. Our total economy will not begin a long-term recovery until agriculture begins to again enjoy a modicum of prosperity

... and agricultural prosperity will not occur until the prices farmers receive for their products are (1) free from national policies designed to use agricultural overproduction as a means of fighting inflation (done at the farmers' expense); (2) policies which commandeer American farmers' resources as tools for foreign policy (also at the farmers' expense); (3) inflation rates that drive up the costs of the inputs they must purchase; and, (4) interest rates that are so high as to create a severe, short-term financial emergency and threaten the long-term economic viability of our nation's most important resource.

Our industry firmly believes that a full and productive U.S. agriculture is an absolute must for our nation's economic and military security. This is not possible without export sales of basic agricultural commodities. Accordingly, we are pleased to see the FY'83 budget includes an increase ($4 million) to promote export sales. But the fact must be reiterated that the $4 million increase pales by comparison to the losses farmers have, and will continue to suffer, unless a policy can be implemented to protect farmers from undue consequences when their harvests are used as "sanctions" or "embargoes" in foreign affairs! Although certain sections were included in the 1981 Farm Bill to provide such protection, the actual use has not been tested and there is reason to believe the intent could be easily circumvented. Let there be no mistake about it, no administration and no Congress, including those working on the FY'83 budget, has been able to overcome the debilitating fear of consumers' political backlash relative to domestic food price increases if exports are pushed too vigorously! And yet, agricultural production is one renewable resource our nation has which is currently our greatest trade asset.

It is also appropriate to speak of the use of farmers' resources in the fight against inflation. If one were to go back and review statements by economists, various administrations (and USDA) in the recent years where inflation has been of such concern, you would most likely find that food prices were significantly touted as "positive" or "negative" factors in the inflation index. Ironically, farm price trends that ameliorate the inflation index are bad for farmers and vice versa. I would like to suggest that there would be merit in not allowing any nonfarm wages or salaries to be adjusted upward by use of a CPI which included food costs as a part of the index, until prices received by farmers exceeded 90 percent of parity. To put the merits of that concept into perspective, consider for a moment these facts:

(1) A West Tennessee farmer paid in 1979, $7.31 for the grease he used in lubricating his equipment. In 1981 he paid $8.50.

(2) Diesel fuel 1979 - $0.623/gal.
1981 - $1.146/gal.
(3) Nitrogen 1979 - $126.10/Ton
1981 - $215.00/Ton
(4) Basagran 1979 - $55.75/gal.
1981 - $68.95/gal.
(5) Treflan 1979 - $23.69/gal.
1981 - $31.20/gal.
(6) Electricity 1979 - $34.00/1000kw
1981 - $44.40/1000kw
(7) Interest on Production Inputs:
1979 - 12%
1981 - 18%

None of the increased prices per unit represented any increase in productive value - they were simply inflation-induced increased costs ... but yet, look at what happened to per unit prices of what this farmer had to sell:

(8) Average prices received:
Wheat 1979 - $3.93/bu
1981 - $2.98/bu
Soybeans 1976 - $6.41/bu
1981 - $5.88/bu
(See attachment "4" for an expansion of the above.)

Data from a farm operation in Clay County, Arkansas, shows production costs went up 80 percent from 1975 to 1981 and income per acre only went up 23 percent. This information was included in the testimony of two farm equipment dealers from the south before ths Subcommittee on Conservation, Credit and Rural Development of the House Agriculture Committee on February 10 and we are attaching their comments to our own as we find them particulary telling regarding the current state of the agricultural economy. (See attachments "5" and "6".) The point: Prices farmers have had to pay for their production inputs increased at a disproportionate rate to income because the prices of inputs had built-in inflation escalators and the prices the farmers received did not!

Who benefited? In the short term, everyone, except the farmer, who made his living supplying inputs to farmers and everyone, again except the farmer, who consumed food. In the long-term, however, no one because such economic inequity to as large a segment of our economy as agriculture brings undesirable results to the total economy and ultimately creates much higher priced food, and perhaps, limited future food supplies.

Some would suggest that the answer is in increased productivity and we've heard a great deal of talk about the subject. Certainly much of President Reagan's supply-side economics has "increased productivity" as its basis. It is generally accepted, however, that the American farmer is the most efficient and productive producer of food in the world and his relative productivity and capital investment per worker is at the top of all industries. There is good reason to suggest, based upon farmers' experience, that whenever you can neither control the unit costs of your inputs nor the unit prices of your output, "increased productivity" has a hollow ring to it.

We believe it is absolutely essential to any short-term, as well as long-term improvement in our total economy that it is imperative that agriculture be returned to a base of prosperity as quickly as possible ... and a continuing national policy of "cheap food" for consumers is not in anyone's interest.

We, therefore, recommend the following actions be taken:

1. The farming community needs an immediate infusion of low-cost loans.
2. Some controls on 1982 and 1983 production of nonregulated commodities.
3. Demand an immediate removal by Japan of tariffs and any other restrictions that inflate the cost of U.S. produced foodstuffs or commodities to Japanese consumers.
4. Sell whatever volume of commodities etc. to the USSR and other Eastern Bloc countries for which they are willing to pay cash on delivery.
5. Use grain embargoes or commodity-related sanctions only as the last resort ... and be sure, even then, that farmers do not carry the full economic brunt of that effort.
6. Implement government policies that reduce inflation, lower interest rates and move to reduce the size of the federal government.

Let me expand somewhat on the last point I covered. Last Wednesday, March 3, the FIEI office conducted a survey of executives from over 175 member companies. (See attachment "7".) It was our hope that we could bring to this Committee useful information regarding the viewpoints of a broad, cross section of industry leaders as to their recommendations on the FY'83 budget proposal put forth by President Reagan.

When asked what their thoughts were relative to the foreseeable economic future, based on conditions March 1, 1982,

* 26 percent believe we have reached the low point and improvement is now on the horizon
* 55 percent believe we are in for a slightly worsening economic situation
* 16 percent think we are in for a significantly worsening situation.

When asked whether inflation, high interest rates, federal budget deficits or unemployment was the nation's most serious economic problem, 48 percent said high interest rates, 33 percent indicated federal budget deficits and only 19 percent named inflation as the number one problem.

In terms of action to be taken that would best enhance economic recovery, 46 percent said reducing interest rates was the most important action. "More spending cuts" at the federal level was selected first by 24 percent of the respondents and "balancing the budget" was first choice of 14 percent.

71 percent of the executives agreed with Federal Reserve Chairman Volker's position that a restrictive monetary policy enforced by the Federal Reserve is the best way to fight inflation and that reducing the budget deficit is the best way to bring down high interest rates.

When asked if they believe Congress should go along with President Reagan's economic recovery program as presented in his FY'83 budget, 60 percent said "yes" and 40 percent said "no." It should be pointed out that a significant number of those voting no indicated to the interviewers that they agreed in concept with the President but could not go along with the high deficit. In a subsequent question, 82 percent of the respondents felt the absolute maximum of the deficit had to be $80 billion or less.

In an effort to cast our industry executives into a decision mode similar as possible to what the Senate Budget Committee faces, four scenarios were provided from which each respondent was to select one:

- 44 percent said we should continue on the current (President Reagan's Economic Recovery Program) course and hope that given time, the economy would correct itself.
- 31 percent felt we should make moderate policy changes (i.e., accept more inflation, higher taxes etc.) and try to make a gradual, less painful adjustment to reducing the size of the federal budget.
- 2 percent said we should make a drastic change in economic policy, accept higher inflation, etc. so that "pain" is lessened, at least for the short-term.
- 23 percent believe we should cut projected spending,especially defense, and/or rescind all or part of the tax cuts in order to more nearly balance the budget.

In summary, Mr. Chairman, there is conclusive evidence that your Committee would find great concern among executives in the farm equipment industry over the critical economic stiuation faced by our nation's farmers and ranchers. Our friends in the fertilizer, agricultural chemical and feed manufacturing industries share that concern. We cannot emphasize enough to this Committee, to the Senate and to all American and foreign consumers the importance of the economic viability of that great national asset - agriculture - which we all take so much for granted. A significant majority of our members believe we still have economically troubled days ahead and that reducing interest rates is the number one priority to future recovery. The basic thrusts to President Reagan's economic recovery program enjoys widespread support in our industry although a strong consensus would favor taking whatever steps are necessary to reduce the size of the projected budget deficit to something less than $80 billion.

As I indicated at the opening of my remarks, I lay no claim to being an agricultural economist nor even a farmer. I am a business owner and executive who shares a direct concern, economic and otherwise, for our nation's agriculture. Within that framework, I shall be happy to attempt to answer any questions you might have of me. Thank you.

Chairman
ROBERT A. HANSON
President
Deere & Company

Vice Chairman
ED MALZAHN
President
The Charles Machine Works, Inc.

FIEI

FARM AND INDUSTRIAL EQUIPMENT INSTITUTE
410 NORTH MICHIGAN AVENUE • CHICAGO, ILLINOIS 60611 • 312/321-1470
EMMETT BARKER • PRESIDENT

January 14, 1982
FED/150/D12/P

To: Trade Press and Flash Report Subscribers

From: E. G. Berzanski, Director of Statistics
(contact Rita Zimmer, Statistical Assistant)

Subject: December 1981 FED FLASH REPORT

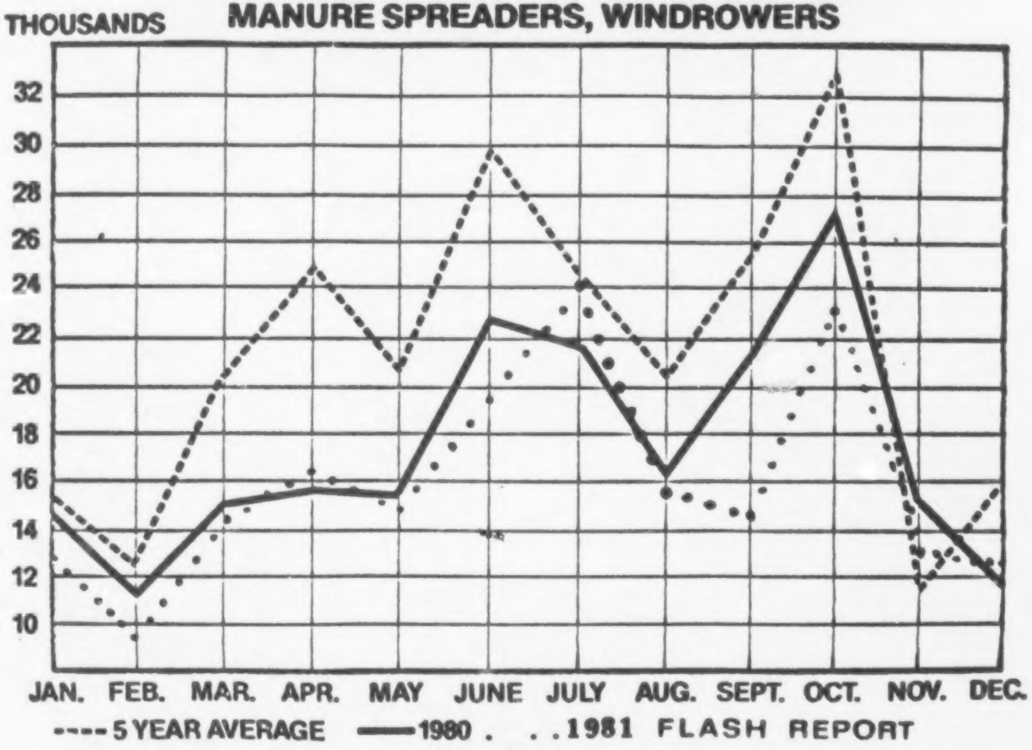
The Farm and Industrial Equipment Institute of Chicago, Il. today announced preliminary retail sales in units of the following equipment for the month of DECEMBER 1981. These data are as follows:

UNIT RETAIL SALES

	DECEMBER			JANUARY-DECEMBER		
EQUIPMENT	1981	1980	%Change	1981	1980	%Change
Farm Wheel Tractors:						
2-Wheel Drive 40 & Under 100 HP	3,829	3,225	+ 18.7	50,966	58,121	- 12.3
2-Wheel Drive Over 100 HP	3,486	2,713	+ 28.5	43,188	50,328	- 14.2
Total 2-Wheel Drive	7,315	5,938	+ 23.2	94,154	108,449	- 13.2
4-Wheel Drive	813	905	- 10.2	9,676	10,887	- 11.1
TOTAL FARM WHEEL TRACTORS	8,128	6,843	+ 18.8	103,830	119,336	- 13.0
Combines (Self-Propelled)	1,921	1,690	+ 13.7	26,830	25,760	+ 4.2
Balers (Bales under 200lbs)	234	411	- 43.1	13,609	14,022	- 2.9
Forage Harvesters (Shear Bar Type)	248	340	- 27.1	7,603	9,461	- 19.6
Mower Conditioners	512	741	- 30.9	18,522	19,452	- 4.8

These data are, in part, estimates which are subject to revision when final detailed data become available. Because of the seasonal nature of the industry, comparisons of monthly data from one period to another should be done with extreme caution. These data represent most, but not all, of the manufacturers in each product category being sold at retail in the fifty states and The District of Columbia.

UNIT SALES
TRACTORS,[1] COMBINES, BALERS, FORAGE HARVESTERS, MOWER CONDITIONERS, MANURE SPREADERS, WINDROWERS



(1) OVER 40 hp

COMPARISON OF 1980 AND 1981 UNIT SALES OF SELECTED FARM MACHINERY TO A 5 YEAR AVERAGE

	5 YR AV.	1980	% OF CHANGE	1981	% OF CHANGE
2 WD Farm Tractors Over 40 HP	127,314	108,449	-14.8	94,152	-26.0
4 WD Farm Tractors	9,800	10,887	+11.1	9,683	- 1.2
Combines	31,632	25,760	-18.6	26,831	-15.2
Forage Harvesters	12,707	9,461	-25.5	7,604	-40.2
Balers (under 200 lbs.)	21,926	14,022	-36.0	13,647	-37.8
Mower Conditioners	24,075	19,452	-19.2	18,521	-23.1
Manure Spreaders	18,355	14,733	-19.7	11,773	-35.9
Windrowers	9,371	7,075	-24.5	6,606	-29.5
Total	255,180	209,839	-17.8	188,817	-26.0

AMERICAN FEED MANUFACTURERS ASSOCIATION
Oakley M. Ray, President

These are difficult times for feed manufacturers -- primarily because they are difficult times for our customers -- the livestock and poultry producers of the country. One reason for this is the recession which has reduced the demand for livestock and poultry and their products.

We expect some improvement during 1982, assuming that the economy improves as predicted. This will expand the demand for livestock and poultry products.

Most segments of animal agriculture are cyclical. Periods of over-supply and prices below cost of production occur from time to time, followed by cutbacks in supply which result in profitable prices for livestock and poultry producers. History is likely to repeat, and recent low prices are causing cutback in several areas which are expected to improve prices for producers.

We favor recent actions of Congress and the Administration to halt or at least to limit the rate of increase in government expenditures and government regulations. When the economy improves, we believe additional action should be taken to eliminate or at least narrow the gap between the income and expenditures of the federal government.

We favor increased efforts to export U.S. produced meat, milk and eggs. U.S. livestock and poultry producers are among the most efficient in the world. If we can obtain fair access to markets in other countries, in many cases U.S. livestock and poultry products can be exported to consumers in other countries at lower cost than the same products can be produced abroad. Increased exports would help return U.S. animal agriculture to a profitable situation and would provide badly needed U.S. employment to produce, transport and process additional animal products.

* * * * *

THE FERTILIZER INSTITUTE
Edwin M. Wheeler, President

We have checked with the Fertilizer Institute and they are saying that the devastating combination of low farm commodity prices and high interest rates are restraining farmers' purchases of fertilizers. The Institute indicates they believe sales this year will barely reach 50 million tons ... down from last year's 53.5 million tons. Severe drops in the 2.5 billion dollar fertilizer export market are causing their greatest pain where sales will be off by 30-50%. World grain price commodities, high exchange rates for U.S. dollars and high interest rates are the three problems here.

Few, if any, producers are currently operating at a profit now and the picture of the short term is indeed bleak.

* * * * *

NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION
Dr. Jack D. Early, President

The outlook for the economics of the pesticide industry in 1982 is closely tied to the overall farm economic outlook. We do not expect any significant reduction in the volume of pesticides farmers will use in 1982, but there will be some slight increase in total costs ... probably in the neighborhood of 5 to 10 percent. With many American farmers facing obvious cash flow problems during 1982, we fully expect that the farmer will be very selective and careful in choosing the exact pesticides that will fit his needs. It is possible that some farmers may opt to forego certain pesticide applications, but we don't visualize any significant trends in that direction. The last and obvious fact to influence the economics of pesticides in 1982 will be the ultimate amount of acreage the farmers will plant.

Chairman
ROBERT A. HANSON
President
Deere & Company

Vice Chairman
ED MALZAHN
President
The Charles Machine Works, Inc.

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EMMETT BARKER • PRESIDENT

TO: FIEI Board of Directors

FROM: Emmett Barker

DATE: January 18, 1982

Why Farmers Aren't Buying

At the Decemeber 17 meeting of the FIEI Executive Committee, I read a letter from my Dad who had responded to my request for "on-the-farm," real world data that would reflect on the current cost/price squeeze of farmers.

Those at the committee meeting found the information most interesting and asked for copies. I thought I would put it in this form and provide others with a copy. My Dad farms about 200 acres (140 cropland) in wheat, soybeans (double cropped) and some corn. Until about 1978, he had a herd of registered Jerseys in his dairy operation ... milking an average of 60 cows per day (no hired labor). His farm is in Gibson County (18 miles NW of Jackson, Tennessee). The county is considered one of the top ten ag counties in the state ... and my Dad is a good farmer.

3-Year Records
(average costs of all purchases during crop year)

		1979	1980	1981
1 carton of gun grease (12/1 lb tubes)		$ 7.31	$ 7.85	$ 8.50
Diesel fuel		.623	.934	1.146
Gas (regular)		.57	1.00	1.265
Fertilizer $/ton	AN	126.10	149.00	215.00
	P	170.00	221.00	244.00
	K	128.00	135.00	160.00
Basagran $/gal		55.75	63.50	68.95

over ...

	1979	1980	1981
Treflan $/gal	$ 23.69	$ 23.90	$ 31.20
30 w Oil (diesel) 24/1 qt can	18.88	20.97	25.15
Hydraulic Oil $/5 gal can	18.06	18.00	42.70
Lime (per ton spread)	11.38	12.25	14.01
Electricity $/1000 kw	34.09	36.40	44.40
Interest on Farm Supplies (average)	12.0%	15.2%	18.0%
Repair Parts	-	-	UP
Wheat (actual dollar rec'd/bu)	$ 3.93	$ 3.75	2.98
Soybeans (actual dollar rec'd/bu)	6.41	6.04	5.88

Note: None of the price increases of inputs improved production or quality. I.e. 18% money does not make more beans per acre than 12%.

STATEMENT BY BLUE RIGGAN
PRESIDENT
CORNING IMPLEMENT COMPANY INC.
CORNING, ARKANSAS
BEFORE THE
SUBCOMMITTEE ON AGRICULTURE CREDIT CONDITIONS IN THE ECONOMY
HOUSE COMMITTEE ON AGRICULTURE
WASHINGTON, D. C.
FEBRUARY 10, 1982

My name is Blue Riggan, President of Corning Implement Co. Inc., a John Deere Farm Equipment Dealership which has been owned and operated by the Riggan family since 1948. We sell farm machinery, implements, repair parts, and service to farmers within Clay County which is located in Northeast Arkansas and borders the state of Missouri. The crops grown in our trade area are rice, soybeans, milo, wheat and some cotton.

My farmer customers are experiencing the same problems as most other businesses are facing today such as high interest rates, higher and higher production costs, and also low commodity prices. In 1980, my area experienced a crop disaster due to a lack of moisture during the growing season. Some farmers produced only 40 to 50% of their normal yield. In 1981 they were able to harvest a good average, only to find prices of commodities so low that they had worked for nothing and were deeper in debt. The quick cure to these problems would be higher prices for the crops they have to sell.

We all know this can not be done in a short period of time, the realistic answer is to gamble a little more and try to hold on hoping for better times ahead.

As a dealer we have always tried to work with the farmers to help them in times of tight money by deferring payment of repair parts, and extending machinery payments from December until crops are sold or crop loans are received. As of February 8, 1982, my accounts receivable is $294,410.30, and past due machinery payments would run into several million dollars. Most of the people who owe these bills are financed by Farmers Home Administration. Each year the crop is in and counted by no later than the first of December. The winter months then give the farmer time to make all necessary arrangements in preparing for the next year. During this time he buys seed, chemicals, fertilizer, fuel, makes repairs on machinery and buys necessary equipment to produce his next crop. As of today, February 10, 1982, the farmers financing with FHA in Clay County Arkansas have not received one (1) cent of money to pay bills for last year or to buy supplies for next year. Some farmers do not know if they will farm at all until June - if it is like it has been in years past. I'm sure this process could be speeded up by some closer management.

In Corning the farmers have three sources to finance their crop loans. (1) The local Bank, (2) Production Credit Association, or (3) The Farmers Home Administration. In checking with our local FHA office last week, I found that they finance crop loans for 206 farmers under their present guide lines. By the first of October, 1982, they will drop 147 of these farmers from their books and expect them to go elsewhere to obtain a crop loan. In checking with the other two financial sources in our town they won't be able to absorb more than approximately 20 to 25% of these farmers. The other 110 will be out of business.

I do not feel a moratorium for one year to not close out any farmers is the answer. Not all people can manage a business, and at the same time I realize some farmers could find alternate sources of financing. My suggestion would be to move 25% to alternate financing, 12-15% would probably be out of business , but this is a build up of approximately four years that FHA has not had any closeouts. The other 50 to 60% I hope will be carried by FHA until they can begin to show a profit in their farming operations.

I would like to thank this committee for listening to our problems and I hope that our input will be helpful in guiding your actions to maintain a strong agricultural economy.

The Extension Service computes that it takes 2.40 hours per acre to produce rice from planting through harvest. This farmer can do the same job for 1.7 hours per acre. This shows you that efficiency is not a problem.

The United States average cost to raise a bushel of rice is $421.00 per acre. At $4.00 per bushel and an average dry weight of approximately 100 bushels per acre, a farmer would loose $21.00 per acre before he started.

Commodity prices must rise above production costs or no farmer can stay in business for long.

FACT SHEET

The facts given on this page are facts taken from an actual farm operation in Clay County. This farmer has farmed the same plot of land since 1950. This is one block of land containing 1000 acres. His operation has remained constant in size. Please note the changes in the production costs of this farm.

	1960	1975	1980	1981
Price of Rice	$2.33	$4.29	$5.31	$4.00?
Price of Soybeans	$2.56	$5.29	$7.20	$6.00?
Amount Borrowed for Crop Loan	$25,000	$61,000	$99,000	$110,000
Top four expenses listed in order of most spent to least spent	Labor Fert. Repairs Interest	Fert. Seed Chem. Labor	Interest Repairs Fuel Labor	Interest Fert. Fuel Repairs
Expenses				
Fuel	$1,572	$4,016	$10,560	$12,013
Labor	5,276	6,417	9,052	11,050
Fert.	4,550	11,462	8,000	15,000
Repairs	3,229	5,113	11,279	12,000
Interest	3,144	6,211	16,000	19,600

1. Production cost from 1975 to 1981 went up 80%
2. Income per acre from 1975 to 1981 went up 23%
3. Machinery cost from 1975 to 1981 went up 50%

In 1975 for every dollar spent he got back $1.90.
In 1981 for every dollar spent he got back $1.35. (Note: This return does not take into consideration machinery costs or land payments)
In 1975 his percent of ownership or equity was 75%.
In 1981 his percent of ownership or equity was 52%.
In the last two years his net worth has dropped 11%.

STATEMENT BY ALBERT T. WATSON
GENERAL MANAGER
OPERATION OF DELTA IMPLEMENT COMPANY AND ASSOCIATED CORPORATIONS
LELAND, MISSISSIPPI
BEFORE THE
SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES

FEBRUARY 10, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Albert T. Watson. I am General Manager, Operations of Delta Implement Company and Associated Corporations. We are International Harvester Farm Equipment Dealers with six retail outlets serving farmers in basically a seven county area in the geographical region known as the "Mississippi Delta", a portion of the Mississippi Flood Plain located between Memphis, Tennessee and Vicksburg, Mississippi.

The farmers in this area are predominately commercial operators whose principal crops are cotton, soybeans, rice and winter wheat.

In 1980, severe drought conditions resulted in poor cotton and soybean yields. This followed abnormal weather conditions in some areas in 4 of the 5 years preceding 1980. As a result, one county in which we operate is reported to have 80% of the farmers receiving crop loans from the Farmers Home Administration.

In 1981, crop conditions and yields were substantially improved. However, the decline in commodity prices of cotton, soybeans and rice left a large portion of our farmer customers unable to repay their crop furnish loans.

In late Fall 1981, the announced FHA policy in this area was that FHA would no longer provide crop furnish loans to farmers who were unable to repay their 1980 loans in full. However, press releases in late January 1982 quoted the Secretary of Agriculture as saying, "We want to keep the farmers in business. Any farmer who shows a reasonable chance of making payments, I'd say he can be assured of getting emergency money from the FHA to stay in business another year."

We as Farm Equipment Dealers have been put in jeopardy by the policies of the Farmers Home Administration. I will give you some examples:

1. At the present time, we have $3.77 million in past due notes secured by farm equipment owed to us by farmers who are furnished by FHA. An undetermined amount of this will be repossessed dependent on whether the farmer is able to negotiate a crop furnish loan for 1982. Additionally, 105 farmers furnished by FHA owe us approximately $205,233 on repair accounts (for repair parts and service work) which we are unable to collect until each farmer is able to make his individual arrangement with FHA.

2. In addition to the outstanding indebtedness mentioned above, we have already repossessed $415,114 worth of farm machinery since the 1981 harvest from farmers furnished by FHA.

3. When a farmer is making arrangements for his 1982 crop loan, FHA policy appears to be to refuse to pay anything on his outstanding farm equipment indebtedness or his repair accounts.

We are constantly approached by farmers bringing us non-disturbance agreements for our signature asking us to agree to no payment until December 15, 1982. This has made it necessary for us to establish a policy of refusing to sign non-disturbance agreements until enough money is paid on the past due portion of the note to maintain a reasonable equity in the machinery plus full payment on open repair accounts. If FHA refuses to pay what we require of these past due payments, then we are blamed for the farmer's foreclosure, and we must repossess the equipment. Obviously, we cannot afford to allow a customer to continue to wear a machine out and pay us nothing for its use.

4. At the present time, 57% of our repair accounts are more than 30 days past due. Our standard is not to exceed 25% in past due accounts. These past due accounts put a tremendous strain on our capital as we must pay cash for our parts purchases. The majority of these past due repair accounts are farmers who are furnished by FHA. There appears to be inadequate money set up in the FHA furnish loans to allow the farmers to make necessary repairs to his tillage and harvest machinery. As a result, we end up carrying his accounts when they are past due, or we must refuse to sell him parts for his repairs on credit.

These are some of the problems we as Farm Equipment Dealers have with farmers receiving their crop furnish loans from the Farmers Home Administration. Sixty-eight percent of the farmers in Mississippi, according to the State Director of FHA, are FHA

furnished. This means the farmer's ability to purchase new machinery is severly restricted. This has resulted in disastrous inventory problems for farm machinery dealers. FHA foreclosures necessitating forced repossessions by farm machinery dealers is an additional burden. Those factors, coupled with farmer's inabilities to pay for his credit purchases for repairs, make the survival of the Farm Equipment Dealer very questionable.

We are in a very critical time in our farm related industry. Survival through 1982 will in large measure depend on quick, direct assistance to the farmers, with clear guidelines to local FHA supervisors, by the Farmers Home Administration.

We thank you for your interest in this matter.

SURVEY SUMMARY
FIEI MEMBERS
MARCH 3, 1982

QUESTION: Based upon economic conditions as of March 1, 1982, which of the following most nearly reflects your thoughts about the foreseeable future of the economy in general:

RESPONSE:

55.3% - We're in for a slightly worsening economic situation.
25.9% - We've about reached the low point and improvement is now on the horizon.
15.9% - We're in for a significantly worsening economic situation.
2.9% - Things will stay about like they are until last quarter.

QUESTION: Please rank the following (1,2,3,4) in terms of the nation's most serious domestic economic problems:

RESPONSE:	No.1	No.2	No.3	No.4
High Interest Rate	48.0	27.8	19.0	4.8
Federal Budget Deficit	32.7	33.7	19.5	14.4
Inflation	18.7	18.4	34.3	28.7
Unemployment	.6	20.1	27.2	52.1

QUESTION: Please rank the following (1,2,3,4) in terms of importance to economic recovery:

RESPONSE:	No.1	No.2	No.3	No.4	No.5	No.6	No.7
Reduce Interest Rates	46.2	24.3	12.4	5.4	4.5	3.5	3.6
Additional Spending Cuts	24.3	29.0	18.4	10.1	9.1	3.5	1.2
Balanced Budget	14.2	10.6	5.3	19.0	11.4	17.4	25.9
Loosening Money Supply	5.3	14.8	12.4	11.3	12.5	15.1	17.6
Increase Business Investment	4.7	8.3	24.3	24.4	17.0	10.5	17.6
Preserving Personal Tax Cuts	3.5	8.3	14.8	15.5	23.9	22.1	17.6
Reducing Federal Budget	1.8	4.7	12.4	14.3	21.6	27.9	16.5

QUESTION: Do you agree with Federal Reserve Chairman Volker's position that a restrictive monetary policy enforced by the Federal Reserve is the best way to fight inflation and that reducing the budget deficit is the best way to bring down high interest rates?

RESPONSE: 71.3% - Yes 28.7% - No

Note: Based on 176 interviews.

QUESTION: Do you believe Congress should go along with President Reagan's economic recovery program as presented in his FY'83 budget:

RESPONSE: 60.2% - Yes 39.8% - No

QUESTION: What is the absolute maximum FY'83 budget deficit that is acceptable:

RESPONSE:

22.2% - $50 Billion
19.0% - Should have a balanced budget
17.7% - $80 Billion
12.7% - $70 Billion
10.1% - $35 Billion
8.2% - $100 Billion
5.1% - $125 Billion
3.8% - $90 Billion
.6% - $150 Billion or more
.6% - Long term balanced budget

QUESTION: Since we are apparently already into President Reagan's Economic Recovery Program, should we (choose one):

RESPONSE:

43.7% - Continue on the current course and hope that given time the economy corrects itself.
30.9% - Make moderate policy changes (i.e., accept more inflation, higher taxes, etc.) and try to make a gradual, less painful adjustment to reducing the size of the federal budget.
23.0% - Rescind all or part of the 1982 tax cuts and/or cut projected spending, especially defense, in order to balance the budget.
2.4% - Make a drastic change in economic policy, accept higher inflation, etc. so that "pain" is lessened, at least for the short term.

Senator **Boschwitz**. Senator Exon, unless you have some questions, I think it might be well to go on.

Senator **Exon**. I have some questions, but let us go on and get the other testimony.

STATEMENT OF CARL T. FREDRICKSON, SENIOR DEPUTY GOVERNOR, FARM CREDIT ADMINISTRATION

Mr. **Fredrickson**. I am Carl Fredrickson, Senior Deputy Governor of the Farm Credit Administration.

I recognize that you're pressed for time. I will make these comments very, very brief.

AGRICULTURAL INCOME

First of all, I will make a comment or two about agricultural income.

In 1981, it looks as though agricultural income will be about $23 billion. The estimates for 1982 range from $13 to $18 billion.

Now, these numbers compare with an alltime peak in 1973 of $33 billion. In other words, in constant dollar terms, net farm income in 1982 could be about one-fifth of what it was in 1972, and, as was stated here earlier, this net farm income level would be the lowest since the depths of the Great Depression.

AGRICULTURAL BALANCE SHEET

A word or two about the agricultural balance sheet. Reference has been made to that here today. At first blush, it appears quite reassuring. Total agricultural debt at the end of 1982 will exceed, in all probability $200 billion which is, of course, an alltime high.

But total assets are in excess of $1,200 million. This makes a debt-to-asset percentage of about 17 percent, and that, of course, in comparison with most industries is a relatively low percentage. But that is a terribly misleading first impression.

The ratio of total debt to farm income this year, 1982, will likely be over 13 to 1. That is compared to less than 3 to 1 in 1973. It could be somewhat higher than that.

One indication of the weight of this debt burden is the fact that interest expense in 1981 accounted for 13 percent of total production costs. Over $19 billion in total interest costs was paid in 1981 in the production of agriculture.

If we were to look at the 500,000 to 600,000 commercial farms, with sales over $40,000, this debt-to-equity ratio would be somewhere in the range of 33 to 34 percent, roughly double that of agriculture in the aggregate.

That makes these firms particularly vulnerable to high interest rates and low net farm margins.

FARM CREDIT SYSTEM

The Farm Credit System, as you know, is a major supplier of credit to agriculture. The three parts of the farm credit system, the Federal land banks, the production credit associations and the banks for cooperatives provide 35 percent of the total credit used by American agriculture. The system is extremely concerned and has been for the past 1½ to 2 years, about the income situation and the gradual deterioration in the financial condition of agriculture.

Farmers continue to do astonishingly well in maintaining their liabilities in a current position with the farm credit system and with other lenders.

But many of them have gone about as far as they can go in that respect. And as Senator Bellmon said to you just a few moments ago, most farmers will be able to make it through this year, even if conditions are as bad as some project them to be. But if there are not basic improvements in the income situation, come another year, we will be looking at a much more serious situation.

The farm credit system continues to work with borrowers in every way that it can. It recognizes that for this year many of them will simply not be able to project a positive cash flow and will not be able to make the scheduled repayments of their loans.

The system's policy has been and continues to be, and this is perhaps being observed even more scrupulously now, that as long as there is a reasonable prospect for a farmer to make a recovery, the system will continue to work with him, extend the loan maturities, provide for reamortizations, and make additional loans. But with this kind of a policy, there is, in every individual case, ultimately a stopping point beyond which no reasonable lender can go. It is not good for the lender, it is not even good for the borrower. That stopping point finally comes when the income that can reasonably be expected even under normal times, whatever those are in agriculture, will not allow that firm to support and service that debt loan.

Thank you very much, Mr. Chairman.

I will try to respond to any questions that you may have.

Senator **Boschwitz**. Thank you, Mr. Fredrickson.

PREPARED STATEMENT OF CARL T. FREDRICKSON, SENIOR DEPUTY GOVERNOR, FARM CREDIT ADMINISTRATION

Mr. Chairman, my name is Carl T. Fredrickson. I am Senior Deputy Governor of the Farm Credit Administration, the independent Federal Agency that regulates and supervises the cooperatively owned Farm Credit System. Before discussing current agricultural credit conditions, I would first like to provide some background information on the Farm Credit System and the Farm Credit Administration.

FARM CREDIT SYSTEM

The cooperative Farm Credit System consists of federally chartered instrumentalities which operate under authorities contained in the Farm Credit Act of 1971 (Public Law 92-181) and other statutes, most notably the Farm Credit Act Amendments of 1980 (Public Law 96-592). The Farm Credit System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses that provide farmers and ranchers with services essential to their on-farm operating needs.

While the U.S. Government provided the initial funding for the various institutions of the Farm Credit System, this "seed capital" has since been repaid. The Farm Credit System is now entirely borrower owned and controlled. Even the costs of the Farm Credit Administration (FCA), the independent Federal Agency that examines and supervises this System, are assessed upon the banks it supervises; therefore, it is the System's borrowers and not the taxpayers who pay the expenses of the Farm Credit Administration.

The Farm Credit System obtains its loan funds primarily through the sale of securities in the national and international money markets. These securities are not guaranteed by the U.S. Government. They are sold through the System's Fiscal Agent in New York City.

The three agricultural credit systems that comprise the Farm Credit Systems are described below.

The 12 Federal land banks (FLB's) make loans ranging from 5 to 40 years through local Federal land bank associations (FLBA's). These loans must be secured by first liens on farm or rural real estate or their equivalency. Loans may be made for a variety of purposes, including the purchase of farms, farmland, and farm improvements rural homes and real estate needed for farm-related businesses; the purchase of equipment, machinery, and livestock; refinancing existing mortgages and paying other debts; and financing other needs of the borrower.

The Federal intermediate credit banks (FICB's) provide loan funds to local production credit associations (PCA's) and discount the notes of eligible borrowers given to other financing institutions. The FICB's may also participate with production credit associations, commercial banks, and one another in making loans.

PCA's make loans with terms up to 10 years to farmers, ranchers, rural homeowners, and certain farm-related businesses. They also make loans with terms up to 15 years to producers and harvesters of aquatic products. Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair, or maintenance of rural homes, and other requirements of the borrower.

The banks for cooperatives (BC's) serve agricultural, aquatic and rural electric cooperatives whose headquarters are within their respective districts. The BC's provide cooperatives with a complete credit service designed to fulfill their specialized needs. The banks for cooperatives make term loans for purposes such as constructing, remodeling, or expanding facilities, or for purchasing land, buildings, or equipment. Seasonal loans are made to finance current or seasonal assets.

The Central Bank for Cooperatives participates with the district banks in loans that exceed their individual lending limits. The BC's may also participate with one another and with other financing institutions in making loans.

The Federal Farm Credit Board is the top policymaking body for the Farm Credit Administration and the cooperative Farm Credit System. Members of the Federal Farm Credit Board, as those of all other boards in the System, serve on a part-time basis. Twelve members of the Board, one from each Farm Credit district, are appointed by the President of the United States with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A 13th member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The Governor is the Farm Credit Administration's chief executive officer. He is appointed by and serves at the pleasure of the Federal Farm Credit Board. He is ultimately responsible for carrying out the policies of the Board by ensuring that the Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest. At the same time, each institution of the System is a user-owned and controlled cooperative association. A great deal of responsibility for directing and managing Farm Credit institutions is vested in member-elected boards of directors and their selected management. FCA supervision is designed to oversee the actions of the district boards to ensure sound management of the banks and associations. Operating decisions are decentralized within the System to the user level, as long as System objectives are respected and sound business is conducted.

FARM FINANCIAL CONDITIONS

Now, let us take a look at the agricultural economy. It is not news that there are economic problems in agriculture today. These problems are extremely widespread, covering virtually the entire spectrum of production agriculture, and they are serious. Net farm income last year was $23 billion—about $4 billion of that is associated with an inventory buildup. The current thinking for 1982 hovers between $13 and $18 billion. These numbers compare with an all time peak of $33 billion in 1973. In constant dollar terms, net farm income in 1982 could be about one-fifth what it was in 1973.

At first blush, agriculture's aggregate balance sheet appears quite reassuring. Total agricultural debt at the end of 1982 will exceed $200 billion, an all time high. But, total assets are in excess of a trillion dollars. The debt-to-asset percentage is less than 17, which is very low in comparison with industry. That reassuring first impression is terribly misleading, however. The ratio of total debt to farm income this year will likely be over 13:1 as compared with less than 3:1 in 1973. One indication of the weight of that debt burden is the fact that interest expenses in 1981 accounted for 13 percent of total production expenses.

Before one can fully appreciate the extent to which the aggregate balance sheet is misleading, the amount of leverage employed by the commercial sector of agriculture, compared to agriculture in general, must be understood. It is estimated that balance sheets of the 500,000–600,000 farms with annual sales in excess of $40,000 would show a debt-to-asset percentage almost double that of agriculture in total. Many individual farms could easily have quadrupled the national average. While it is true that these farms receive a very large proportion of total agricultural income, the heavy use of debt makes many of them particularly vulnerable to income fluctuations.

This brief review should establish that the income and financial outlook for farmers in 1982 is a matter of serious concern. The prospect of a sustained 3-year decline in net farm income raises obvious questions about the ability of some farmers to maintain productive operations. Since 1979, overall prices received by farmers have increased only 4.5 percent, while prices paid have increased about 22 percent. In each of the past 2 years, the nominal gain in the price of agricultural assets has been less than the general rate of inflation, resulting in a decline in the real wealth position of agriculture. In 1981 alone, the purchasing power of farm assets decreased almost $12 billion. Fortunately, this is a drop of only about 1 percent. It stands, however, in marked contrast to the mid-1970's, when net operating returns were modest, but capital appreciation was large in both nominal and real terms.

Unfortunately, 1982 offers perhaps a poorer income prospect than 1980 or 1981. Further, a continuation of current conditions could make 1982 the third consecutive year of decreasing purchasing power of farm real assets. The last such period was 1931–33. Hence, now is an appropriate time to review recent financial performance of farmers in meething their loan obligations to the Farm Credit System, and to discuss our plans for monitoring and servicing credit needs during this difficult period.

A year ago, the prospects were still for improved income in 1981, although the optimism of the fall of 1980 had not been realized in the first part of the year. Still, we were looking for improved conditions in the final three quarters of the year. Instead, prices deteriorated steadily. For the first time in recent memory, farm prices received in each succeeding month were lower than the previous month. Much of this is attributable to the bountiful production by the U.S. crop sector during the year and to the generally depressed status of consumer demand for red meats. Another contributing factor was the recessionary conditon in many importing countries which, combined with a relatively strong dollar, produced slower export growth than might have been anticipated.

In short, a variety of factors combined in 1982 to produce very ample supplies and a very soft demand for farm products. That general supply-and-demand situation continues to haunt us in 1982, with relatively few exceptions. Carryover stocks of most U.S. commodities are relatively large. Initial prospects for 1982 crop production in the Southern Hemisphere look good, although there have been some recent reports of dry conditions in some corn and soybean areas. The dollar remains strong relative to other currencies. It does not appear that exports will be large enough to provide any major stimulus. The current recession portends little near term improvement in domestic demand for red meat demand.

The main sources of optimism are the potential for a reduced world crop in 1982 and the prospect that some significant proportion of the July 1 individual tax reduction will be reflected in consumer demands for meat and other food products. The extent of producer participation in the voluntary feed grain and cotton acreage set-aside programs, announced on January 29, will also have a significant impact on markets. Grain prices are a mixed blessing. Adequate supplies translate to low feed costs for livestock producers, thus putting a brake on the upward trend in production costs at least for that sector. That same situation, however, means low gross income for grain producers, who will experience continued increases in their production costs. We can thus conclude that at best the overall farm financial situation is unlikely to show any improvement through mid-year.

CREDIT STATUS

The Farm Credit System served more borrowers and was providing more loan funds at the end of 1981 that at any other time in its history. The number of FLB loans at yearend increased by 8.9 percent to 646,372, with an aggregate amount of $46.5 billion. The number of PCA loans made during 1981 increased 2.1 percent to 380,186, with yearend outstanding of $21.7 billion. An additional $900 million was outstanding from FICBs to other financial institutions. Bank for cooperatives borrowers increased by 7 to 3,493 and held $9.1 billion at yearend. Further, overall performance of the loan portfolio has been generally acceptable through 1981.

Growth in total Systems loan outstanding has been slowing throughout 1981. Total loan volume outstanding in the Farm Credit System actually dropped in November, compared to a month earlier, and did not fully recover to the October peak by yearend. The November decline was the first month-to-month decline since November 1975 and amounted to 2.7 percent on an annual basis, compared to a 1.2-percent decline in that earlier period.

This slowdown was the net result of very different patterns among the three Farm Credit banking systems. Federal land bank (FLB) loans outstanding grew slightly faster in 1981 than they did in the corresponding period of 1980, at an annual rate of 22.6 percent, as compared to 22.3 percent. Surprisingly, monthly data indicate that refinancings used a smaller percentage of FLB funds than in 1980.

In contract to the FLB experience, PCA loan outstanding showed a strong slowdown. They grew rapidly during the first 7 months of 1981, at almost a 26-percent annual rate; however, from August to November outstandings decreased at a 14.6-percent annual rate. This is essentially a repeat of the 1980 experience, except that the first half growth was somewhat stronger in 1981. One obvious factor has been the decline in farm machinery sales, and thus weak loan demand for that purpose. Another factor is participation in Commodity Credit Corporation's grain loans, with proceeds being used to repay PCA loans. Finally, farmers may be improving their liquidity situation as much as they can to be ready to ride out difficult times.

The banks for cooperatives also had very volatile loan activity during 1981. After growing at an average annual rate of 19.2 percent during 1980, outstandings increased markedly during January, but then declined in 6 of the next 10 months. A general softening in market interest rates provided more competition to the cooperative banks from commercial banks and the commercial paper market, where interest rates were slacking off.

Recent loan experience thus suggests that farmers and their cooperatives have already tightened their belts somewhat, paying off existing short-term debts where possible and minimizing new borrowing.

Loan collection rates have slowed, but by much less than might be anticipated from a simple review of the general agricultural income situation. This reflects the continuing tradition of farmers meeting their loan obligations, despite adverse circumstances. Federal land bank repayment rates have declined in each of the past 2 years. But this is not primarily a sign of stress. This decline is, in large part, a reflection that interest rate differences between FLB's and other financial institutions have discouraged prepayment of land bank mortgages in recent years. Fewer old loans are being rewritten into new ones with the purchase of additional land, because of the slowdown of land transfers. Changing scheduled maturities in the loan portfolio also occur as the proportion of short-term debt refinancing changes in relation to new mortgages for real estate purchases. Nevertheless, the decline in FLB repayment rates, in part, probably derives from the weakened farm income. Under these conditions, farmers retain as much cash as possible for liquidity purposes. Land bank delinquencies continue to be very low and show no trend to date.

PCA collection rates are also slower than in recent years, but by much less than the drop in FLB repayment rates. For the first 11 months of 1981, PCA collection rates averaged about 95 percent of the previous 3-year average. At the end of November, PCA renewals were actually down about 1 percent from year-earlier levels. Participations with commercial lenders were 2 percent greater than in November 1980, and FICB loans outstanding to other financial institutions dropped somewhat from their August peak, but were still almost 20 percent above year-earlier levels.

As might be expected, credit reviews indicate some decrease in loan quality among PCAs during 1981; however, overall quality remains strong. The proportion of loans rated "acceptable" is no different from the average loan quality ratings for the decade of the 1970's. Losses charged off in the PCA system increased in 1981, but there was little change in the FLB charge-off rate. Additional PCA losses are likely during 1982.

BALANCE SHEET

It is clear that certain individuals and groups in the farm sector are in difficult financial shape. The prudent degree of financial leverage for a farmer has decreased with changes in the safety net of Federal commodity and credit programs during 1981. Even under normal farm income circumstances, borrowers and their lenders would be expected to adjust over time to the greater degree of financial risk assumed by the producer. This situation is intensified by the weak farm income situation we now face. It is further aggravated by the series of relatively poor years brought on by a drought or other problems in a number of areas. Producers in these areas come into this period in already weakened financial condition. Current economic circumstances are anything but favorable to their financial prospects.

Larger commercial farms, which produce a sizeable share of total farm output and carry the bulk of the farm debt, are expected to experience significant difficulties in 1982. These farms are heavily capitalized operations. Cash expenses absorb a large proportion of their gross receipts. Because of their narrow operating margins, this group is exposed to greater financial stress when expenses rise or gross income falls. Particularly exposed are those who established or enlarged operations during the last 3-5 years, using much debt capital. Debt service is a significant factor in their cash outflow.

A second subgroup with difficulties is the large farmers who, because of adverse circumstances, were eligible for various economic emergency or natural disaster lending programs of Farmers Home Administration and Small Business Administration. Some of these borrowers faced a one-time hardship from which they have recovered. Others faced repeated adversity which, combined with the cost price squeeze of the past 3 years, puts them in a very difficult situation.

FARM CREDIT SYSTEM AND FCA ACTIONS

The continuing purpose of the Farm Credit System is to provide sound, adequate, and constructive credit, in good times and bad. The ultimate test is whether there is a reasonable prospect for financial recovery. Forbearance will continue to be our philosophy and program during 1982. We are now in a period, however, in which financial limits for some borrowers are likely to be tested. The policy is to work with distressed borrowers so long as a reasonable prospect for recovery can be identified. Nevertheless, our forbearance philosophy also provides for counseling those who have little hope for financial survival. In such cases, we may encourage them to withdraw their remaining equity before it is dissipated.

The overriding constraint on the ability of the System to stick with borrowers in financial difficulty derives from the need to protect the financial health of the Farm Credit System. This protection is absolutely essential to ensure an adequate supply of future credit to the farm sector as a whole. Risks will be assumed, but they must be controlled so as to maintain the quality of System bonds sold in the securities markets. The System has set aside large reserves, which serve as our first line of defense for just such a situation. But it is neither realistic nor prudent to guarantee all borrowers continued access to credit regardless of their economic prospects, and particularly during an extended series of poor years such as 1980, 1981, and 1982.

The System does not expect a great number of foreclosures during 1982. We do expect a significant increase in loan servicing activity, with a larger number of borrowers. Servicing steps will include careful planning for all, based on cash flow prospects and full use of the protection afforded by crop insurance, commodity credit loans and other Government programs. In addition, extensions, debt restructuring, and reamortizations will be used, where appropriate. Some sale of assets will be needed in individual situations to solve extreme problems.

Both the banks and the Farm Credit Administration are making extra efforts to monitor the credit situation on a regular basis. We are implementing a special reporting mechanism for banks that will provide needed data on a monthly basis. We will be sharing that with credit officials in the Administration and the Congress as the situation warrants.

Thank you Mr. Chairman.

ONLY SOLUTION FOR AGRICULTURE IS HIGHER INCOME LEVEL

Senator BOSCHWITZ. You have summed up the problems, but you have not suggested any solutions that might be coming to the farm credit system.

Would you respond to Senator Bellmon's suggestion that some—and also Mr. White's suggestion, that loans have to be available to farmers at low-interest rates, that second mortgages might be necessary, that farmers have sometimes been borrowing against the equity of their fields, and now that equity is going down.

As a matter of fact, the extent of its loss in farm values is hard to gage because there are good buyers and very few transactions. At least in our State. Maybe that is a good thing. Because if the farms, as Senator Bellmon pointed out, if we are going to be forced to some sales, those sales could be at very low levels. You have very graphically outlined the problem, but tell me a little bit about what you see the farm credit system, how it should participate and the solution.

Mr. **Fredrickson**. Mr. Chairman, the farm credit system, as you know, obtains its loan funds from the private capital markets and it has to operate on an entirely self-sustaining basis. It does not have the benefit of any Government subsidy or guarantee of any kind at all. It is in every sense a private lender. It is owned and controlled by those who borrow from it, and it's contribution during these times, as it has been in previous times of stress for agriculture, is to stay with borrowers as long as it reasonably can.

It is not in the business to extend subsidized or soft loans or low interest rate loans. It has no capacity to do that. It does have the capacity to stay with borrowers as long as there is a fighting chance they can survive, and that is what the system has been doing, and will continue to do.

The problem is, that for agriculture, as much as it might provide some temporary life for individual borrowers, the answer is not in more credit.

The only solution for agriculture is a higher level of income.

Now, we recognize that those that are presently involved in agriculture have to live through this until there are prospects for improved income. But additional credit is simply not the answer to agriculture.

SUPPORT EXPORT PROMOTION PROGRAMS

Senator **Boschwitz**. I do not disagree with that at all, Mr. Fredrickson. Then really, the need is the higher prices, not for additional loans. Sometimes higher prices are a little more difficult to arrange than additional loans, however, and that is why I asked the question.

Since you have posed the question in a different way, how do you propose what impact can the Senate have or the Congress have on raising the price, and then we'll get back to the original question of the loan.

Mr. **Fredrickson**. In the immediate future, the thing that could be done, perhaps, most quickly would be some very, very strong support from the Congress for the export promotion programs. Strong financial support and strong moral support would do more for agriculture immediately than perhaps virtually anything else that the Congress could do. Beyond that, what the Congress could do, which would be of tremendous assistance to agriculture, as well as to all other borrowers, would be to take actions with respect to the budget, which would allow interest rates to come down. Interest rates at the present level of 15, 16, and 17 percent, and perhaps higher, as compared with net returns on agricultural assets employed of 2 percent, are completely out of all proportion.

Senator **Boschwitz**. I agree that we should be more aggressive.

Senator Exon, do you have a question?

EXECUTIVES DO NOT UNDERSTAND SITUATION

Senator **Exon**. I wish we had more time.

We have to go over to the floor to make a vote. Because I think we are talking about something very, very critical here, and I appreciate your coming, and I will read these, I assure you, in great detail.

I would just like to say one thing to you, Mr. White.

One of the most important things, after citing the problems that you cited here, you went to the poll 44 percent, and 31 percent. It is very clear to me that the large number of executives of the firms that you are representing here today simply do not understand the situation because if we are not going to make any changes in the President's program, then we are not going to solve the serious short-term problems in front of us. So, therefore, I think it is time for every one of us to recognize that we politicians do not swim upstream, against the water—80 percent of the farmers in the recent survey in Nebraska support the President's program.

Now, it is not political. If we could get away from this political thing and get down to a situation of what we are going to do, but if the majority of your executives are supporting the President's policy, then there is not much that the Congress can do about it.

Thank you very much.

NECESSITY OF DISCIPLINING

Senator **Boschwitz**. Well, the vote is not quite upon us, and we will take some prerogatives in extending the hearing beyond the 12:30 deadline.

I agree with you about the necessity of expanding exports. I also agree with you about the necessity of disciplining ourselves on the budget which is the principal thing. I do not agree entirely with Senator Exon's remarks but I think the President is on the right track, matter of fact, and he is making very interestingly some of the Senators on this committee who have never heard talk about balanced budgets before, making them into rather strong components of that idea, and as I see more and more of that with the intensity of feeling that Senator Exon, who is a very excellent and distinguished good colleague of mine, with that same intensity of interest, by George, I think there is some reasonable cause for optimism that we indeed are going to get the job done here on the Budget Committee, hopefully with some kinds of a reconciliation resolution that forces other committees to adopt, as numbers, not as goals, but as mandates.

When that happens, I think, indeed, Secretary Volcker—not Secretary, but Chairman Volcker, who was sitting here, as you are, said that if we do discipline ourselves, by George, we are going to make some progress.

FARM CREDIT SYSTEM DOING EVERYTHING POSSIBLE

Now that we have determined, and I agree with you, Mr. Fredricks on, that the exports and the discipline of the budget just bringing down the deficit—I think this is now going to be a vote—what about the farm credit?

These farmers, in order to survive, have to have a little touch, put a little touch on you, I guess, and we will look for ways and means.

Do you have any suggestions for the purpose of helping farmers get through this very difficult period?

How the farm credit system can help him? What should the Congress do?

Mr. **Fredrickson.** Beyond what I have already suggested, no, I do not.

We are involved in literally hundreds of loan reamortizations, loan extensions, and completely redoing debt structures for individual farmers to allow them to continue in business. Beyond that, I do not think there is a great deal that the farm credit system can offer.

We are, as the Secretary indicated earlier, doing everything we can to cooperate with the Farmers Home Administration as it works with its borrowers and there is no doubt that some of those borrowers will be picked up by the Farm Credit System institutions.

Senator **Boschwitz.** Bob, do you have any remarks; do you have any thoughts or remarks about this?

I am going to have to go down and vote.

Mr. **White.** No; I think that we tried to express our concern for the current situation, to express the fact that we thought the President was generally on the right track, but also to express the fact that it is very difficult to make drastic changes at a very poor economic time and that the immediate future performing and our farm machinery customers is very bleak.

We hope we can survive the next year and that we will then go on to prosperity. We suggested some of these considerations as possible interim short-term and somewhat longer term measures.

Senator **Boschwitz.** Both—some of the Senators of this committee, not Senator Exon, but I am on the Agriculture Committee, and I will bring some of your ideas, both of your ideas to the attention of that committee.

I am chairman of the Foreign Agricultural Trade Policy Committee. I will look into some of Senator Bellmon's ideas. I have not reviewed them recently. Maybe we can, indeed, get some of these folks together, various countries, and get a little more money for our products.

We thank you both for coming. We thank you very much for coming and I am sorry that you had to sit so long and then abbreviate your testimony.

This hearing is adjourned.

[Whereupon, the committee adjourned at 12:48 p.m.].

STATE AND LOCAL GOVERNMENT

FRIDAY, MARCH 12, 1982

U.S. Senate,
Committee on the Budget,
Washington, D.C.

The committee met at 10:15 a.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman) presiding.

Present: Senators Domenici, Boschwitz, Hollings, and Exon.

Staff present: Stephen Bell, staff director; Rebecca Davies, senior analyst, commerce and community development; Lizabeth Tankersley, minority staff director; and Ann Hadley, analyst for commerce and community development.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman Domenici. The hearing will please come to order.

We continue our series of hearings in preparation for the first budget resolution for fiscal year 1983. Our topic today is the impact of the Federal budget on State and local governments.

We are delighted to have excellent witnesses from the National Governors' Association, the Honorable Richard A. Snelling, Governor of Vermont, and the current chairman of the National Governors' Association; and the Honorable Scott M. Matheson, Governor of Utah, and the incoming chairman of the NGA.

We are also pleased to welcome the Honorable S. Curtis Kiser, minority leader of the Florida State House of Representatives, testifying on behalf of the National Conference of State Legislatures.

At approximately 11:30 a.m., we will turn to our second panel of witnesses comprised of local government officials. We will welcome at that time the Honorable Joseph P. Riley, Jr., mayor of Charleston, S.C.; the Honorable Tom Moody, mayor of Columbus, Ohio; and the Honorable Alfred DelBello, county executive of Westchester County, N.Y., representing the National Association of Counties.

These are all distinguished witnesses and we are pleased to have them testify before us today.

DEFICITS UNACCEPTABLE

I don't need to tell you the difficult task the Budget Committee and the Congress face. Even after the historic budget reduction effort of last year, further erosion of the economy has pushed budget deficits into the $100 billion range. Even with the additional fiscal year 1983 spending restraint requested by the President and assuming a strong and sustained economic recovery, huge deficits are projected in future years. Deficits of this proportion are unacceptable to the Congress.

Members of this committee have already proposed alternative budget plans and I am sure others will do so in the coming weeks. I have put forth one such plan. Briefly, my plan would impose a 5-percent real growth cap on defense budget authority between fiscal years 1983 and 1985. It would restrain the rate of growth in indexed entitlement programs by reducing cost-of-living adjustments. It would raise additional Federal revenues, preferably by halting special tax preferences and closing existing tax loopholes; and it would freeze domestic discretionary spending at the fiscal year 1982 levels for 3 years.

Most direct Federal aid to State and local governments falls into this last category of the Federal budget, that of discretionary, appropriated programs. While I would expect that there would be some "pluses and minuses" for individual programs from the fiscal year 1982 program funding levels, my proposal is to hold the overall level for these programs constant.

I propose we refrain from any further drastic cuts in discretionary spending for two reasons, First, this area of the Federal budget has been declining. Discretionary programs now represent roughly 18 percent of total Federal outlays, down from 23 percent in fiscal year 1981. These programs have borne the bulk of budget reductions in recent past years. The Reconciliation Act of last year cut spending in this category by close to 20 percent.

Second, further budget reductions in discretionary programs alone are not the answer to Federal spending restraint. We must reckon with other Federal spending programs that are far less controllable. We must restrain the growth in Federal entitlement programs—now nearly 60 percent of Federal outlays—if we are to achieve real control of the budget. As I indicated before, in my view, we must also restrain the growth of defense outlays and provide additional revenues in order to bring the deficits into an acceptable range.

THE PRESIDENT'S FEDERALISM INITIATIVE

Before closing, I would like to turn to the President's federalism initiative for a moment. The President's proposal is a bold and imaginative one in my view. It embraces a concept I had in mind 6 years ago when I wrote an op-ed piece for the Wall Street Journal. I called for a "refederalization" of our intergovernmental system—for a fundamental "sorting out" of government responsibilities in the form of dollar-for-dollar program trades.

The President has opened a debate that is long overdue, There is going to be tremendous controversy about some features of the plan. There are aspects of the plan as it stands right now about which I have reservations. I am pleased that the administration has made a strong commitment to involve you and the Members of the Congress in the development of the specific legislative proposals. This is a tremendous opportunity to improve relationships within the Federal system. We must not let it slip away.

I hope you focus principally on the fiscal impact of the President's proposals, but we ought to spend some time on federalism just as it relates to the budget, but the principal focus hopefully would be on the fiscal package.

I assume you want to proceed with the chairman first. Is that correct, Governor Snelling? You want to lead off?

Governor **Snelling**. Why do we not reverse that, Mr. Chairman, since my colleague is going to address the subject that you have put first.

Chairman **Domenici**. Fine. Governor Matheson.

STATEMENT OF HON. SCOTT M. MATHESON, GOVERNOR, STATE OF UTAH, CHAIRMAN-ELECT, NATIONAL GOVERNORS' ASSOCIATION

Governor **Matheson**. Thank you, Mr. Chairman.

Pursuant to your letter of February 22, extending the invitation to appear before you, I would like to submit my formal testimony for the record and simply provide a brief summary of the points which I think are salient to our discussion.

Chairman **Domenici**. It will be made a part of the record, Governor.[1]

Governor **Matheson**. Before I address the 1983 budget, Mr. Chairman, I believe it would be useful to review the experience of the States in the 1982 fiscal year.

To begin with, the State and the local units took a disproportionate share of the budget cuts for 1982. We comprised 12.6 percent of the total Federal budget, but our authority in that year was cut 26 percent.

Few Governors which I have talked to about that matter would be interested in replaying last year's experience this year. We proposed, as you recall, a 10-percent cut in the blocks, believing we could assume the administrative—the 10 percent with administrative cost deficiencies. Unfortunately, we ended up getting 20 percent cuts and very little flexibility.

We now face fiscal 1983 with further extensive large cuts in those programs. So we are here today basically to plead our case for 1983, based upon what we think were inordinate cuts too deep for fiscal year 1982.

FISCAL CONDITION OF STATES

I would like to tick off just some points which I think are salient in that regard, beginning with a brief report to you on the fiscal condition of the State as a result of the 1982 budget. The majority of the States entered 1982 either projecting a deficit or on the brink of a deficit.

One measure of fiscal condition of the States is to determine that a year-end balance equal to 5 percent of the spending is a prudent way to end up your year's experience. But our survey shows that 30 States will expect to conclude their current fiscal year with a deficit or a balance below 1 percent.

There are nine other States which forecast balances of 1 percent to 5, and only seven at more than 10 percent.

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[1] See p. 185.

More than half of the States, Mr. Chairman, raised their taxes in their 1981 legislative sessions. The States are also finding that their revenues which they have estimated are falling seriously short of their projections. Our survey says that 21 States will be below those official forecasts, 10 will exceed them. But those evaluations, Mr. Chairman, were done early last fall and we are attempting to update them, and the preliminary indication is that the situation is much more serious than it was last fall. That will basically give you a little overview of the 1982 experience at the State level.

FISCAL YEAR 1983 BUDGET PROPOSALS

I would like to talk briefly about the fiscal year 1983 budget proposals and the essence of what the Governors' position is, came about at an opportunity in the White House on December 4, 1981. At that time, the Governors presented the executive committee's position on the 1983 budget and it has only four points.

The first is we recommended that funding of State and local nonentitlement programs in fiscal 1983 and fiscal 1984 hold up at the level of 1982. The administration has proposed, in response to that, further budget cuts of about $5.9 billion.

Second, the executive committee proposed that if discretionary programs were to be cut further, the reductions should be balanced with comparable increases in the Federal share of income security programs. The response from the administration was to reduce State administered income security programs by an additional $3.9 billion.

Third, we recommended and called for greater scrutiny of our Defense spending as well as our tax expenditures, and asked for even-handed treatment of direct Federal entitlement programs, many of which are not based on need, and States and Federal entitlements where need is always a factor.

In response, the proposed budget, proposed an increase in Defense of 18 percent, modest tax revisions, 2.2 percent cuts in direct Federal entitlements, but nearly 12 percent in Federal-State entitlements.

Finally, we called for attention to be given to the capital infrastructure needs, particularly the construction grants for wastewater treatment of the 2.4 billion on an extended basis plus we requested that further delays in capital infrastructure commitments be placed in the budget and addressed in the fiscal 1983 year. That basically is how we addressed the fiscal 1983 budget.

IMPORTANCE OF GRANTS IN STATE/LOCAL FINANCE

With respect to the importance of grants in States' local finance, perhaps I could just give you a quick perspective about that. I have attached to my written testimony some tables to show the importance of grants programs as they fit into the States and local budget picture.[1] If the fiscal year 1983 proposals are accepted by the Congress, they would turn back the clock on the percentage of State-local-Federal financial relationships to the 1965 level.

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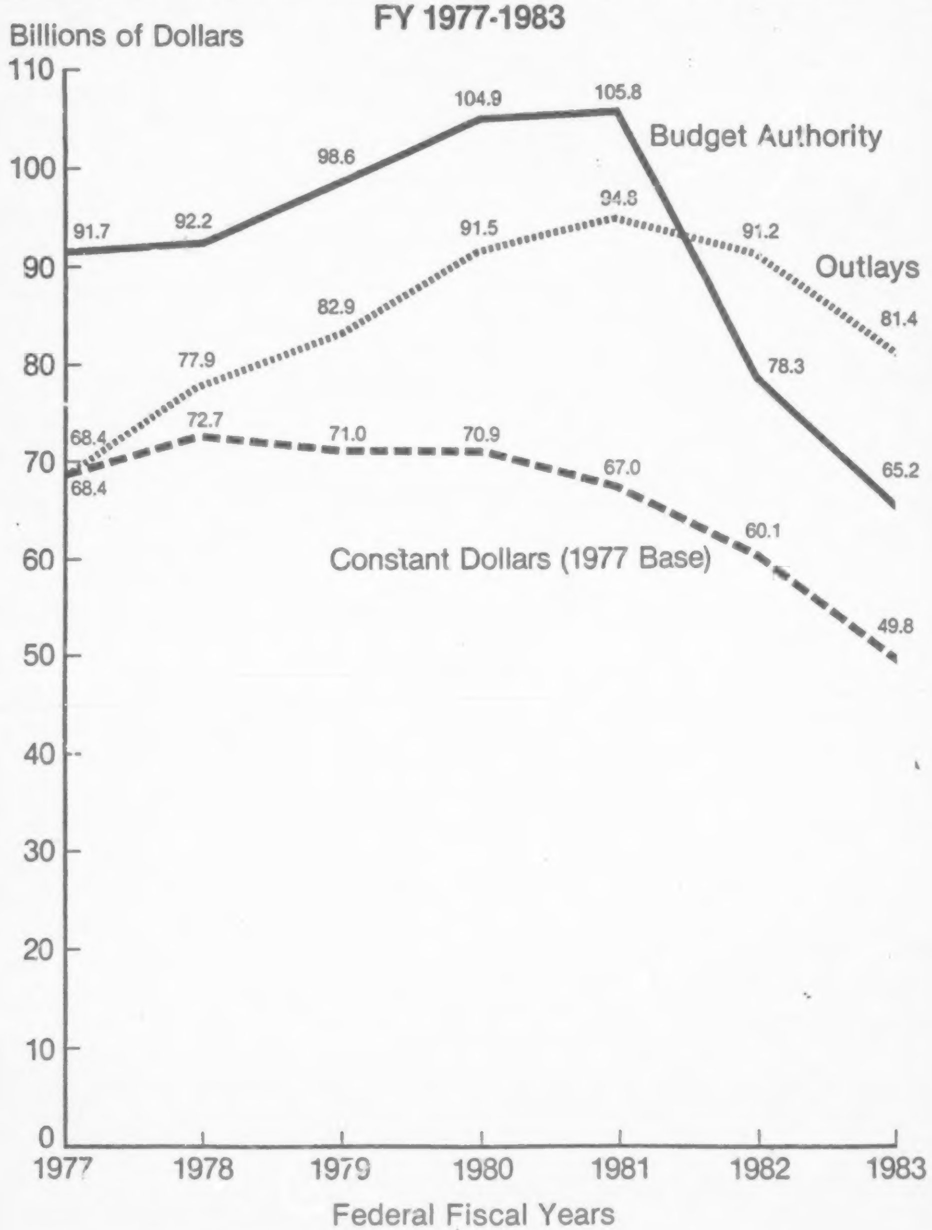
[1] See p. 196.

Table 2, which uses fiscal year 1981 as a base year, and compared to grants for fiscal year 1983, we would have only 53 percent of the purchasing power needed to maintain constant program levels. That would be, Mr. Chairman, a cut in purchasing power of 47 percent in just 2 years.

In 1980, about $105 billion in budget authority was granted to States and locals for income security, public health, and all other programs. In 1982, $78 billion was made available for those programs, and I have a graph which was prepared a night or two ago which will point out the interesting experience from 1977 to 1983, assuming we adopted the administration's proposals. The top line is the budget authority; the middle line the outlay, and that has now crossed in 1982. But the interesting thing is to look at the constant dollars. What the real dollars are worth from 1977, and you will see in the 1977 up to 1981 we pretty much held steady but, in 1982, a dramatic drop. And if you look at 1983, a very, very dramatic drop, which I think puts in some clear perspective the nature of the fact that grants-in-aid to State governments are not only going down but the percentage of the budget is dramatically going down for that purpose.

Federal Aid to State and Local Governments

FY 1977-1983



Source: BA and Outlays OMB Special Analysis H.
Source: Constant dollars National Governor's Association

GRANTS TO HUMAN RESOURCE PROGRAMS

I would like to mention just briefly grants to human resource programs. I think it might be helpful to focus just for a moment on that portion of the budget.

The year 1982 made disproportionately large cuts in income assistance and service programs for low income Americans. The 1983 budget proposes more than $5 billion in additional cuts. These changes concentrate over $4 billion in direct income assistance and will require substantial reductions in benefits to individuals who are totally or partially dependent upon Government assistance. Those cuts far exceed potential savings from reductions in fraud, waste, and abuse.

We think that there should be at this particular level a careful reevaluation of those in the context of what we really need so that we do not dip below the basics which I think the cuts will do.

Needs tested entitlements have not been treated fairly when compared to other entitlements. For example, social security is projected to grow from $155 billion in 1982 to over $200 billion in 1987. In contrast, over the same period, the administration proposes to cut AFDC and food stamps from $19.3 billion to $15.6 billion. That reflects not just a reduced growth rate but a concerted program cut.

In our view, we have sufficiently reduced support for the poor and for Federal service programs administered by the States.

REFORM IN GRANT-IN-AID SYSTEM

Just to comment on the grant-in-aid system and the need for reform. We would urge the committee to assume a lead role in examining major proposals to simplify the grant-in-aid system for their positive possibilities and specific application.

We urge, at a minimum, Mr. Chairman, the new block grants be held harmless from further cuts in fiscal 1983, and we also earnestly request assistance from the Congress to give us flexibility to administer those grants.

A table attached to my testimony, table 3,[1] shows the proposed funding reductions of block grants between 1982 and 1983. Interestingly enough, they range from 71.3 percent to zero. But, overall, the reductions——

Chairman DOMENICI. Where is that in your testimony?

Governor MATHESON. Table No. 3, Mr. Chairman.

If we were to adopt the administration's fiscal year 1983 budget, those blocks would be reduced 15.7 percent beyond last year. We are opposing that reduction. We think that those cuts can only result in a major service reductions, serious administrative problems, and further public dissatisfaction.

STATE-BY-STATE IMPACT OF THE FISCAL YEAR 1983 BUDGET

In terms of the State by State impact of the fiscal year 1983 budget, we are developing the analyization of that, and in my table 4[2] attached to the testimony, it shows the effect, 49 of the 50

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[1] See p. 197.
[2] See p. 198.

States showed dramatic budget reductions as a result of that proposal.

CONCLUSION

I would like to conclude just by ticking off three or four points which I think are critical to our discussion.

The first is this, Mr. Chairman. The Governors endorse the President's federalism initiative. We think that the time has come to turn back to the States many programs which began at the Federal level with good reason, but for reasons which have changed, should be returned to the States.

Second, we cannot divorce the proposed budget cuts of 1983 from the New Federalism that the President has encouraged the Congress to adopt. The 1983 cuts, whatever they turn out to be, will be the basis upon which we will embark upon the federalism of]984, and with the 1982 experience and with the potential of a similar 1983 experience, and that is a proposed springboard into the New Federalism, in our judgment, does not provide an opportunity to play the game as a partner in any sense of the word.

Third, the Governors join the chorus of business organizations, economists, Members of Congress who decry the projected Federal deficits for 1983, deficits which clearly will continue to undermine economic recovery. We are supportive of every reasonable effort to bring that deficit under control and reach a balanced budget.

We are convinced that Congress must move quickly to reduce the size of the deficit. We believe the primary targets for additional budget cuts must include Defense and indexed entitlements, as difficult as facing up to those problems seem to be.

We have reached the conclusion that nobody should get a blank check for anything this year, and every part of the budget must have careful public scrutiny.

Finally, I think I should conclude by saying to you that the Governors support basically the proposal which you—and a similar proposal from Congressman Jones, which you submitted in broad terms to our midwinter meeting and applaud you and Congressman Jones for your leadership in that regard. We stand ready to work as closely as we can to assist you in hammering out a suitable budget for 1983.

Thank you, Mr. Chairman.

Chairman DOMENICI. Thank you very much, Governor.

PREPARED STATEMENT OF HON. SCOTT M. MATHESON, GOVERNOR, STATE OF UTAH, CHAIRMAN-ELECT, NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman and Members of the Committee:

My name is Scott Matheson, and I am the Governor of Utah. As Governor Snelling has indicated, I will focus my remarks on the impact of the FY 1983 budget on the states. A recent NGA analysis of the budget will be supplied to Members of Congress.

Fiscal hard times are already upon most states, before additional adverse impacts due to new federal budget decisions are even considered. The FY 1983 budget proposals and unanswered aspects of the President's federalism proposal would significantly weaken our capacity to meet the needs of our citizens directly and indirectly through our local governments.

But before we address the 1983 budget, it would be useful to review the states' experience in FY 1982. To begin with, states and local governments took a disproportionate share of the budget cuts in FY 1982. While we comprise only 12.6% of the federal budget, grants-in-aid budget authority was cut 26%.

For years, the governors have urged Congress to rationalize the current federal aid system through increased reliance on state and local laws and procedures, fewer mandates and regulations, more revenue sharing and block grant funding procedures. Last year's block grants were certainly better than dozens of programs for the same recipient and purpose, but only with flexibility and adequate funding.

Few governors will be interested in a replay of last year's experience. We proposed a one-time 10% cut and significant flexibility to target funds according to state priorities. What we got were 20% cuts and very little flexibility from Congress. Now further large cuts are proposed for FY 1983.

The states come before you to plead their case for equitable treatment in the FY 1983 budget with the 1982 experience behind them and a sagging economy before them. The states are anxious to see the nation achieve economic vitality. But we urge Congress to ensure that we are not asked to carry a disproportionate share of the burden. It might be helpful to provide some background for you on the current fiscal condition of the states so you can better understand our concerns about the FY 1983 proposals.

Fiscal Conditions of the States

At the outset, it might be helpful to provide some background for you on the current fiscal condition of the states so that you can better understand our concerns about the FY 1983 proposals.

With their revenues buffeted by the national recession, the majority of states entered 1982 either projecting deficits or teetering on the brink of deficit. Since states cannot legally operate in the red, many states face tax increases or large service cuts on top of a depressed economy. As one measure of fiscal condition, a year-end balance equal to 5% of annual spending has been considered a prudent cushion. However, according to a recent survey, 30 states expect to conclude their current fiscal years in deficit or with a balance below 1%.

These states are in all parts of the country:

New England	Connecticut, Massachusetts, New Hampshire, Rhode Island, Vermont
Middle Atlantic	New Jersey, New York, Pennsylvania
Great Lakes	Indiana, Michigan, Ohio, Wisconsin
Plains	Minnesota
Southeast	Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, West Virginia
Southwest	Arizona
Rocky Mountain	Colorado, Idaho, Utah
Far West	California, Oregon, Washington

Nine other states forecast balances of one to 5%, and only seven predict balances of more than 10%. Most of the states with large balances derive substantial revenue from their energy industries.

Although more than half the states raised taxes during 1981 legislative sessions, state budgets in 1982 are austere, suffering from sluggish revenue growth and increased recession related expenses. States are also finding that actual revenue is falling short of projections: 21 states indicated that revenue was below official forecasts, while only 10 indicated it exceeded the forecast. Since the recession worsened significantly after October, when this information was collected, the situation appears even more tenuous today. For example, Wisconsin originally responded to the survey saying it expected a balance of more than $53 million. But in late January, legislative and executive estimates of the deficit for the current biennium ranged from $377 million to $450 million.

Contributing to the problem has been the effect of the Accelerated Cost Recovery System (ACRS) which Congress enacted as part of the Economic Recovery Act of 1981. While NGA has not attempted to make estimates of the precise revenue impact of ACRS on the 44 states that are tied in some way to federal depreciation definitions, we know that the effect will be substantial. By some calculations, if all states adopted ACRS, state revenues from corporate income taxes in FY 1986 would drop nearly 40% (or $10 billion) from what they otherwise would have been in FY 1986. Given the magnitude of the potential loss, state officials will be reviewing their response with some care, and our decisions may change as our analyses are completed.

According to a survey undertaken by the National Governors' Association last month, it appeared that 20 of the 44 states affected expected to fully conform to the changed federal rules, 10 were conforming, but with modifications (such as raising the corporate tax rate to offset lost revenue or allowing only a portion of the depreciation exemption allowed under the federal law), 5 were not conforming, and 9 had not yet decided on a course of action.

FY 1983 Budget Proposals

In anticipation of the Presidents FY 1983 budget, the governors officially communicated their views to him in a letter dated December 4, 1981.

The FY 1983 budget, as proposed by the President, falls short on four important points which the NGA's Executive Committee endorsed in the December 4 letter to the President:

- the Executive Committee urged level funding of state and local "non-entitlement" programs in fiscal 1983 and 1984 - - - the Administration's budget cuts such programs by $5.9 billion;
- the Executive Committee proposed that if discretionary programs were to be cut further, the reductions should be balanced with comparable increases in the federal share of welfare, Medicaid, and other income security programs - - -the Administration's budget cuts these state-administered income security programs by $3.9 billion, including changes that reduce the federal government's current share of all these programs.
- the Executive Committee called for greater scrutiny of defense spending and tax expenditures and for even-handed treatment of direct federal entitlement programs, many of which are not based on need, and state-federal entitlements, where need is always a factor - - - the proposed budget increases defense by 18% proposes only modest tax revisions, cuts direct federal entitlements by 2.2% and state-federal entitlements by 11.7%.
- the Executive Committee called for increased attention to capital infrastructure needs - - - the proposed budget provides $2.4 billion for wastewater treatment plants in both fiscal 1982 and 1983 but continues to delay and stretch out other capital infrastructure spending, including highways, rail systems, and airports.

Importance of Grants in State-Local Finance

Table I, attached, shows the relative importance of grant programs in the context of state and local finance and the federal budget. If the FY 1983 proposals are accepted by Congress, they would turn back the clock on state-local-federal financial relationships to 1965 levels.

Another vivid indicator of the impact of FY 1983 proposals is the proposed level of budget authority for grants in aid. As Table II shows, using FY 1981 as a base year, grants proposed for FY 1983 would have only 53% of the purchasing power needed to maintain constant program levels. This would be a cut of 47% in purchasing power in just two years.

Mr. Chairman, you know that "state and local grants" do not go to governments; they go to the people of the United States. In 1980, about $105 billion in budget authority was granted to state and local governments to address the income security, public health, clean water, job training, public education, economic development and hundreds of other concerns which affect citizens in the communities in which they live.

The 1982 budget made about $78 billion available for these programs and these needs. The national consensus apparently was that in the past funding for these programs had risen too fast, and had to be restrained. The question now is, how shall we determine the right level for intergovernmental expenditures?

I would feel more comfortable if I believed that child welfare could be cut by 18%, funding for learning and employment programs could be reduced by 20%, support for maternal and child health could be reduced by 22%, low income home energy and emergency assistance could be cut 28%, savings of 20% could be realized from eliminating waste and misapplication in the food stamp program, and that the grants which assure higher education for the neediest scholars could be cut in the half - - - all without serious harm to the people intended to be served by these programs. In fact, Mr. Chairman, cuts at this level are harmful to the point of being punitive.

I suspect that there are reasonable arguments to be made for some further reductions in funding of some programs. But, after close examination of who benefits from these expenditures, I am certain that $13 billion cannot be cut from grants to people through state and local governments while maintaining any true "safety net" for those in this country who genuinely deserve help.

These reductions in purchasing power are sizable enough to have a major effect on state and local governments, private providers of services paid with grants, and the recipients of services. How the losses are likely to be shared among these groups depends both upon the nature of individual cuts and the programs in which they are made.

As was the case with the FY 1982 cuts, it is likely that a substantial percentage of these cuts will, of necessity, be "passed through" state and local governments, so that the ultimate effects will fall upon service recipients. States are largely unable in the current economic climate to increase taxes to the extent necessary to replace lost federal funds.

Other program cuts, such as outlay reductions in capital and construction programs (e.g., transit, waste water treatment, and highways) will have the short term effect of slowing the pace of capital acquisition, with attendant negative effects on jobs in the private sector and service availability, but with little immediate impact on the solvency of state and local governments. Over the longer term, however, pressures will build to provide state and local funds to finance the needed construction at significantly inflated costs.

Increased pressure to borrow will also be attributable to the loss of federal grants. Federal grants, over the last decade, have financed approximately 37% of all state and local construction spending. Reduction in those grants will require increased borrowing if the projects are to go forward. Unfortunately the credit quality of state and local borrowers has deteriorated appreciably over the last year and a half, at least in the opinion of the credit rating agencies. Decline in credit quality can be attributed to deterioration in the structure and performance of state and local government revenues from their own sources. This situation is exacerbated by investor concerns as to the impacts of large cutbacks in intergovernmental assistance. And there are continued concerns as to the reliability of state and local governments in honoring their debt obligations in view of the widespread adoptions of expenditure and tax limitations. Propositions 13 and 2½ are leading, but not isolated examples.

For these reasons, the long-term prognosis for the tax-exempt bond market is not good. Long-term tax-exempt interest rates will drop, but in relationship to taxable rates they will remain at much higher levels than we have seen traditionally. Furthermore, because of the loss of federal grants and general pressure on current operating budgets, demands for borrowing to finance capital facilities will increase. Individual and institutional investors, however, will be using other outlets to shelter income and will be generally in less need of tax shelters. The shrinkage of and pressure on general government budgets will also mean a deterioration in credit quality and continuing high-risk premiums. Finally, competition from the federal government will generate a continuing supply problem that will squeeze state and local government issuers — that typically have less financing flexibility and are more sensitive to interest rates — out of the market.

Other cuts will have a more substantial and direct effect on the finances of state and local governments. In the case of Medicaid, the Administration proposes two kinds of reductions:

(1) reductions in total program costs which are generally designed to encourage more efficient service and more prudent use of medical care; and

(2) cost shifts from the federal to the state and local levels through error rate sanctions, reduced administrative costs, reduction in matching rates and the end of federal participation in the cost of Part B Medicare Insurance.

Grants to Human Resource Programs

In his remarks, Governor Snelling emphasized the need for federal budget decisions to protect and enhance the commitment that this nation has made to promoting fair government policies. The National Governors' Association as a whole has incorporated this theme in its budget policy. In this context, I thought it might be helpful to focus for a moment on the human resources aspects of the proposed budget. The FY 1982 budget made disproportionately large cuts in income assistance and service programs for low-income Americans. Now, the FY 1983 budget proposes more than $5 billion in additional cuts. These changes concentrate over $4 billion in cuts in direct income assistance and will require substantial reductions in benefits to individuals who are totally or partially dependent upon governmental assistance. The cuts far exceed any potential savings available from reductions in fraud, waste, and abuse. Moreover, they significantly reduce the incentive for poor individuals to seek work and to increase their earnings. Such an approach is both unfair and counterproductive, in that it fails to reward the efforts toward self support which are so critical to the reduction of assistance rolls.

While Governors have long argued that they could provide services more efficiently than the federal government, they have never indicated that they could provide such services without adequate resources. This concern is particularly critical now as we look at additional cuts and as we begin the process of considering the President's federalism options. While we will strongly advocate increased flexibility, it is critical that the Budget Committee set funding targets which are sufficient to assure a continued federal commitment during the negotiation and transition phases. Without such a commitment, vital services will be impaired and the future of federalism will be brought into question.

Needs tested entitlements have not been treated fairly when compared to other entitlements. For example, OASDI is projected to grow from $155 billion in FY 1982 to over $200 billion in FY 1987. In contrast, over the same period, the Administration will cut AFDC and Food Stamps from $19.3 billion to $15.6 billion. This reflects not a reduced growth rate as suggested by Secretary Schweiker but a concerted program cut. At the same time, Medicare is projected to grow by almost over 37%, as contrasted to estimated growth in Medicaid of only 15%.

In my view, we have sufficiently reduced support for the poor and for federal service programs administered by states. These programs are critical and must be continued. It is both fair and essential that the Budget Committees consider the imbalance in past reductions in federal spending on the poor and the services they rely on.

It is vital that the Budget Committee provide spending targets in its budget resolution that recognize the serious reductions these programs have already sustained.

Reform in Grant-in-Aid System

It is my observation that the American people are insisting that each level of government develop a lot more accountability in place of the current hodge-podge of mandates, regulations, financial shifts and overhead costs. I urge this committee to take a lead role in examining major new proposals to simplify the grant-in-aid system for their positive possibilities and specific application. In this regard we applaud Congress for passing the State and Local Government Fiscal Impact Act last year.

We urge you, at a minimum, to hold the new block grants harmless from further cuts in FY 1983 and to increase our flexibility for administration of block grants. Table III shows the proposed funding reductions for the block grants between FY 1982 and FY 1983 which range from 71.3% to 0%; overall, the blocks are to be reduced by 15.7% more in FY 1983. We are opposed to this further 15.7% reduction. Such cuts can only result in major service reductions, serious administrative problems and further public dissatisfaction.

State-by-State Impact of the FY 1983 Budget

Mr. Chairman, NGA is developing the capacity to analyze the impact of the federal budget on a state-by-state basis. I have provided for the record Table IV, which shows the effect of the FY 1983 budget proposals on the fifty states and the territories.

Forty-nine of the fifty states show budget reductions. Wyoming, which benefits substantially from mineral leasing revenues (expected to increase sharply in FY 1983), shows a $35 million increase in federal grants to state and local government. The "non-state" category also shows an increase because of the proposed substitution of a nutrition block grant for Food Stamps in Puerto Rico. As would be expected, the larger states take the larger cuts, with New York and California alone accounting for about 23% of the reduction in outlays.

Of the eight states with reductions of over 15%, six are in the central portion of the United States (Illinois, Indiana, Michigan, New Jersey, Ohio and Tennessee). Reductions in employment and training and AFDC tend to drive these results. The two states with reductions of over 15% were Arizona and Florida, both of which are affected substantially by the impact aid reductions.

On a per capita basis, the big federal aid losers are the big federal aid users. Losses of over $50 per capita in federal assistance to state and local governments appear in outlays for:

Alaska*
Hawaii
Maine
Massachusetts
Michigan
Montana
New York*
Rhode Island
South Dakota
Tennessee
Vermont*
Wisconsin

*Loss over $60 per capita

States losing less than $35 per capita are Kansas, Nevada, New Mexico, and Texas — states that do not have high federal aid reliance.

Please note that the FY 1983 projections do not reflect any legislative changes in formulas, which are difficult to predict, or changes between FY 1982 and FY 1983 due to using updated data (e.g., population) in existing formulas.

The methodology by which these preliminary estimates were established is explained in the appendix to the report.

Conclusion

The governors endorse the President's federalism initiative, feeling that the time has come to turn back to the states many programs which began at the federal level for very good reasons, but now have become bloated with overlapping bureaucracies and conflicting regulations. I believe the states have the will and the capacity to handle these many programs. The governors are hopeful of reaching agreement with the President on a new federalism initiative that is acceptable to both the administration and the governors. Members of Congress are also offering some major initiatives that we hope to support.

We cannot divorce the proposed budget cuts in FY 1983 from the new federalism that the President has encouraged Congress to adopt, as the 1983 cuts could undermine the states' ability to assume larger responsibilities once the turnbacks begin.

The governors join the chorus of business organizations, economists and even members of your own house who decry the projected federal deficits for FY 1983, deficits which will undermine the economic recovery that Congress and the President are committed to achieving. I believe the size of these deficits is neither desirable nor unavoidable.

A sufficient number of alternatives to reduce these deficits have been advanced by the Congressional Budget Office and members of both houses of Congress to suggest widespread sentiment that they are potentially harmful to economic recovery and therefore unacceptable. We are convinced that Congress must move quickly to reduce the size of the deficit. The primary targets for additional budget cuts must include defense and indexed entitlements. Congress must also be willing to reevaluate tax policies which have dramatically reduced revenues.

Mr. Chairman, from this testimony, I think you will see that the Governors support the budget program that you outlined in broad terms when you joined us at our winter meeting last month. We will continue to consult with the Congress.

We look forward to working with you to develop a sound budget policy that stimulates the economy and preserves the programs that the American people rely on to meet their most basic needs.

Table 1

Grants in Relation to Total Budgets

	Grants as Percentage of	
Federal Fiscal Year	Federal Outlays	State/Local Budgets
1965	9.2	15.3
1970	12.3	19.2
1975	15.4	23.0
1980	15.9	26.3
1981	14.4	25.3
1983	10.7	18.3
1985	9.6	16.1

Table II

Grant Allocations in Relation to Purchasing Power
($ billions)

	Budget Authority	Outlays
FY 1981 Actual	$105.8	$ 94.8
Amount required in FY 1983 to Maintain FY 1981 Purchasing Power	122.7	110.0
Amount in Administration Budget, FY 1983	65.2	81.4
Administration Recommendation as Percent of Amount Required to Maintain FY 1981 Purchasing Power of Grants, FY 1983	53%	74%

Table III

FY 1983 Block Grant Proposals
($ millions)

	Budget Authority			Percentage Change	
	FY 1981	FY 1982	FY 1983	FY 1981-83	FY 1982-83
Social Services	2,991.0	2,400.0	1,974.1	-34.0%	-17.7%
ADAMHA	548.6	432.1	432.0	-21.3%	- 0 -
Preventive Health	99.2	81.6	81.6	-17.7%	- 0 -
Community Services	472.7	348.0	100.0	-78.8%	-71.3%
Community Development	3,695.0	3,456.0	3,456.0	-6.5%	- 0 -
Education (Chap. 2 ECIA)	521.8	470.7	433.0	-17.0%	-8.0%
Low Income Energy Assistance	1,905.0	1,807.2	1,300.0	-31.8%	-28.1%
(Including Emergency Assistance)	(55.0)	(55.2)	--		
Primary Care (Including migrant health, black lung clinics, and family planning)	535.0	414.8	416.8	-22.1%	+0.5%
Services for Women, Infants, and Children (Including MCH and WIC programs)	1,384.5	1,281.6	1,000.0	-27.8%	-22.0%
Child Welfare (Including Child Welfare Services, Foster Care, Adoption Assistance, and CW Training programs	522.9	465.1	380.1	-27.3%	-18.3%
Combined Welfare Administration	2,125.0	2,296.0	2,181.0	+2.6%	-5.0%
Vocational and Adult Education	774.5	732.5	500.0	-35.4%	-31.7%
Education for the Handicapped	1,025.2	1,042.1	846.0	-17.5%	-18.8%
Training and Employment	6,095.0	2,252.0	1,800.0	-70.5%	-20.1%
Rehabilitation Services	923.7	925.0	623.5	-32.5%	-32.6%
Rental Rehabilitation Grants	—	--	150.0	N/A	N/A
TOTAL	23,619.1	18,404.7	15,524.1	-34.3%	-15.7%

TABLE IV
IMPACT OF FY 1983 REDUCTIONS
CHANGE: FY 1982 TO FY 1983

STATE	AUTHORITY			OUTLAYS		
	$ MILLION	PERCENT	PER CAPITA	$ MILLION	PERCENT	PER CAPITA
ALABAMA	269.7	21.9	69.3	185.2	15.0	47.6
ALASKA	58.2	15.6	145.5	50.7	13.6	126.8
ARIZONA	115.4	18.9	42.4	108.6	17.8	40.0
ARKANSAS	140.7	19.1	61.5	84.8	11.5	37.1
CALIFORNIA	1,387.6	16.7	58.6	1,157.8	14.0	48.9
COLORADO	124.7	15.0	43.2	107.6	13.0	37.2
CONNECTICUT	203.2	21.0	65.4	134.6	13.9	43.3
DELAWARE	36.7	17.5	61.6	28.1	13.4	47.3
FLORIDA	401.2	16.0	41.2	377.5	15.1	38.8
GEORGIA	346.2	17.5	63.4	251.2	12.7	46.0
HAWAII	66.5	16.8	68.9	52.9	13.4	54.9
IDAHO	47.5	15.7	50.3	39.9	13.2	42.3
ILLINOIS	579.5	16.8	50.8	547.2	15.8	47.9
INDIANA	307.3	22.5	56.0	205.8	15.1	37.5
IOWA	129.5	15.7	44.5	115.9	14.1	39.8
KANSAS	104.1	16.6	44.0	82.6	13.2	34.9
KENTUCKY	251.6	20.3	68.7	166.8	13.4	45.6
LOUISIANA	264.9	17.4	63.0	172.3	11.3	41.0
MAINE	89.0	20.1	79.1	61.4	13.9	54.6
MARYLAND	260.3	17.3	61.7	205.1	13.6	48.7
MASSACHUSETTS	469.3	19.8	81.8	323.2	13.6	56.3
MICHIGAN	461.2	14.7	49.8	515.8	16.4	55.7
MINNESOTA	298.5	20.2	73.2	194.1	13.2	47.6
MISSISSIPPI	181.4	18.5	71.9	112.0	11.4	44.4
MISSOURI	251.7	17.6	51.2	209.8	14.7	42.7
MONTANA	52.1	14.8	66.3	39.9	11.3	50.6
NEBRASKA	76.4	17.5	48.7	60.7	13.9	38.7
NEVADA	44.7	16.7	55.9	27.3	10.2	34.1
NEW HAMPSHIRE	52.6	19.5	57.1	38.4	14.2	41.7
NEW JERSEY	436.0	19.0	59.2	348.7	15.2	47.4
NEW MEXICO	48.2	6.9	37.0	22.2	3.2	17.1
NEW YORK	1,713.6	19.9	97.6	1,071.0	12.4	61.0
NORTH CAROLINA	306.2	18.9	52.1	210.8	13.0	35.9
NORTH DAKOTA	52.1	19.9	79.8	32.5	12.5	49.8
OHIO	571.8	18.6	53.0	476.7	15.5	44.2
OKLAHOMA	175.6	20.4	58.0	110.5	12.9	36.5
OREGON	94.8	11.2	36.0	78.2	9.2	29.7
PENNSYLVANIA	674.4	16.8	56.8	571.9	14.2	48.2
RHODE ISLAND	90.2	21.8	95.2	52.2	12.6	55.1
SOUTH CAROLINA	160.6	17.5	51.5	118.7	12.9	38.0
SOUTH DAKOTA	63.5	23.3	92.0	39.5	14.5	57.2
TENNESSEE	447.0	27.1	97.4	266.3	16.2	58.0
TEXAS	620.0	18.0	43.6	437.7	12.7	30.8
UTAH	57.7	11.2	39.5	58.2	11.3	39.9
VERMONT	43.2	17.7	84.6	33.3	13.6	65.2
VIRGINIA	265.5	18.6	49.7	196.3	13.8	36.7
WASHINGTON	201.1	15.6	48.7	185.6	14.4	44.9
WEST VIRGINIA	131.0	19.4	67.2	94.3	14.0	48.4
WISCONSIN	349.3	18.7	74.2	248.5	13.3	52.8
WYOMING	-35.4	-9.2	-75.1	-34.9	-9.1	-74.2
STATE TOTAL	13,539.7	17.9	59.9	10,268.3	13.6	45.5
NON-STATES AND UNDISTRIBUTED	-456.8	-16.9	-110.2	-466.4	-17.2	-112.5
GRAND TOTAL	13,082.9	16.7	56.9	9,801.9	12.5	42.6

Chairman DOMENICI. Governor Snelling.

STATEMENT OF HON. RICHARD A. SNELLING, GOVERNOR, STATE OF VERMONT, CHAIRMAN, NATIONAL GOVERNORS' ASSOCIATION

Governor SNELLING. Mr. Chairman, with your permission and indulgence, I would like to lay aside my testimony. I know that there will be ample time for that to be studied, and try to communicate a sense of urgency.

Chairman DOMENICI. We will make that a part of the record.[1]

DECISIONS MUST BE MADE IN 1983

Governor SNELLING. Thank you, sir. It is not an urgency that we need to address to you, in a sense, of course, we are preaching to the choir, but it is very important that we find some way of communicating to all of those who must make the decisions which are going to affect the outcomes in our States and communities just how we—how strongly we feel that some decisions must be made in 1983.

We agreed before we came here, my colleague and I, to divide the burden, and Governor Matheson has essentially addressed the problems of the 1983 budget. As he said, and as you clearly understand, we cannot separate the consideration of the 1983 budget from these group of philosophic and practical debates which are referred to as the New Federalism.

It is our feeling that 1983 is clearly a year when the past and the future must be reconciled, and we have to address what it is about the past which has brought us to the kinds of confrontation with basic economics which you are facing, Mr. Chairman. We have watched the growth of the grant-in-aid system now for two decades and, over that period of time, we will acknowledge that the percentage of support for State and local programs, which has come from the Federal Government, has increased. It has increased by and large as a result of programs which required certain actions and which motivated those actions by the offer of shared money. The total expenditures of this country, however, did not grow primarily in that area. The total expenditures grew far more in other areas. So I think that the first thing that we all have to agree to is that we are now in an era of restraints, and that era of restraint is certainly going to continue. I do not know of any Governor who believes that budgeting on the Federal level or on the State level is going to be in the eighties the way it was in the past. The problem is to make a transition that addresses the problems of the future.

Last night, Mr. Chairman, I was on a television panel with one of your colleagues, a distinguished Senator, a former Governor and a friend of mine. He was asked the question, as was I, whether the whole federalism concern was urgent or not. He opined that it was not urgent, and his reasons, Mr. Chairman, were a recounting of all of the heavy and weighty matters which face the U.S. Congress this year and for quite sometime. He listed those urgent items and the agenda. I take that to be the best argument in the world for getting down to brass tacks about federalism.

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[1] See p. 201.

Mr. Chairman, there will never be a time when the U.S. Congress oriented properly as it should be to items of national concern is going to be able to do justice to the thousands of items that are addressed in these hundreds of categorical qrants. The Senator was absolutely right that the Congress does not have time and never has had time to deal with the nuances of differences between the 50 States and the five territories and the thousands of counties and thousands of municipalities.

CHANGES IN FUNDING APPROACH CAUSES SUFFERING

Now, we are really suffering as a result of the dramatic change in the funding approach. The Governors have always believed we could do it better for less, with greater flexibility; so far we have gotten less without the flexibility. So if 1983 does not turn out to be the year when we address the fundamental problems of federalism, we are concerned that we are going to be dealing with receding budgets in 1984, with receding budgets in 1985, still without the flexibility, still with hundreds of narrow grants which tell us what our priorities must be despite the obvious differences in proper priorities in different places.

Mr. Chairman, the sense of urgency, I think, is captured by the fact that 50 Governors can nearly unanimously agree on a position on federalism and on a position on the 1983 budget. It is not unanimous but nearly 80 percent of the Governors agreed to a fundamental statement on these matters. Sense of urgency also ought to be communicated by the high degree of support that we find for these common positions that include the Governors, the State legislators, the Association of Counties, their staffs, groups which, in the past, have had a high degree of divergence on a sense of priority and of goals.

So, Mr. Chairman, we would like to discuss with you, whenever you are ready, the details of a proposed plan to return more power and more responsibility to the States. We do respectfully disagree with some elements of the plan that the President has offered. Nearly every unit of government that I know of—which has taken a position on this matter, however, salutes the President for his initiative and agrees that this is an urgent item to be put on the agenda. I cannot emphasize too much the points which Governor Matheson has made. Obviously we do not wish transition or transfer or swap or tradeoffs to become code words for neglect.

We have our responsibilities, they have been clearly defined in terms of what must be done by some units of government for the people of this country.

Now, our task is to find a way to get those chores in the hands of the most responsible units of government and to assure, not only now, but forever an adequate capacity to address them.

Mr. Chairman, we really do look forward to working with you and helping in any way we can to communicate our own sense of urgency to the Nation.

Chairman **Domenici**. Thank you.

PREPARED STATEMENT OF HON. RICHARD A. SNELLING, GOVERNOR, STATE OF VERMONT, CHAIRMAN, NATIONAL GOVERNORS' ASSOCIATION

Senator Domenici and Members of the Committee:

My name is Richard A. Snelling, and I am the Governor of Vermont. I am currently serving as Chairman of the National Governors' Association and am here as a representative of NGA today. Accompanying me is Governor Scott Matheson of Utah, who will succeed me as chairman of NGA. In our testimony today, I will concentrate on the President's federalism initiative, and Governor Matheson will cover the effect of the FY 1983 budget on the states. The two are interrelated, however, and our testimony will, I hope, make that point.

Before proceeding with that general division of labor, I would like to make a few comments designed to place the statements we are delivering to you today in a common framework.

The importance of the decisions which this Congress will be making in the weeks ahead may very well be unparalleled in the modern history of this nation. Seldom before has a sense of perspective been so essential to the likelihood of a satisfactory outcome.

President Ronald Reagan has correctly identified three tasks which the nation must promptly address. These are:

1. to restore the nation's economic health;
2. to rebuild our defenses; and
3. to recapture that fundamental sense, upon which all other strengths depend, that our government is "of the people".

Each of the three urgent national agendas is separately an essential goal. But they are also interrelated.

A strong defense cannot be obtained by the purchase of arms at a rate that endangers the economy. It is the economy which must support the capacity for defense.

Neither a strong economy nor a strong defense can be achieved unless the public has confidence in the competence and fairness of the government.

Since President Reagan's election, his proposals have determined the shape and substance of the national debate. We have, quite properly, put aside decisions on how fast tax rates can increase, and instead we are debating how fast they should decrease. We are no longer allowing defense spending to become a dwindling portion of the budget; we are considering how fast it should grow to afford the requisite security. And, for the first time in a half century, the nation is discussing how to return greater responsibility to state and local governments.

The President cannot be faulted for demanding that those who object to the legislation he submits accept the challenge of offering thoughtful substitutes. And given the urgency of addressing the capacity of the economy, the adequacy of the defense and the restoration of the federal system, he is entitled to make his own programs strong and pointed in order to assure that the outcome will be far more in the direction he proposes than in any other direction.

It is the duty of the nation to pick up the President's charge and phrase a response in harmony with a national sense of what will be worthy to endure. Mr. Chairman, you are leading the way in this endeavor, and your thoughtful approach to the difficult problems associated with your task makes me feel confident that you will make wise recommendations to your colleagues. I want you to know that the Governors are prepared to work with you in any way you would find helpful.

FEDERALISM REFORM

Let me turn now to federalism, with the understanding that Governor Matheson will speak in detail to the budget issues.

At the outset, I wish to acknowledge the leadership you have shown, Senator Domenici, in efforts to reform the federal aid system. When you joined us at our winter meeting, Governor Alexander introduced you by reading from a 1976 article you wrote calling for a sorting out of government roles and responsibilities, with the federal government taking more of the financial burden for income security programs. That article is one example of your thoughtful approach to improving the effectiveness of government and your farsightedness in identifying six years ago problems that many in government are only beginning to grapple with today. Your work regarding block grants, "mega blocks," general revenue sharing, and the need for flexibility in the intergovernmental system (reflected in language you inserted in last year's budget report) demonstrate a constancy and creativity in the cause of reform that is second to none in the Senate. For this, the Govenors owe you—and Senator Baker, Senator Sasser, Senator Kassebaum, Senator Roth, Senator Durenberger, and others—a debt of gratitude. But there is still much to be done.

Before describing the specific action taken by the Govenors at our winter meeting last month, Mr. Chairman, I believe it would be helpful to discuss for a moment why we feel that progress on intergovernmental reform is urgently needed. Although the grant-in-aid system has certainly done much to alleviate poverty in this country, to strengthen the nation's capital infrastructure, and to advance social goals, all the evidence now points to the need to re-examine the intergovernmental partnership. An eleven volume study recently published by the Advisory Commission on

Intergovernmental Relations—concluded that the federal system is overburdened. Indeed, we all know that it is. With our hands tied by 500 separate categorical programs, and their attendant regulations, over 1000 separate mandates on state and local government, and a paperwork burden estimated to cost $5 billion in 1977, we are not surprised that many Americans simultaneously believe that government is not meeting their needs and that it costs too much.

Mr. Chairman, when the federal government requires an advisory committee on sudden infant death in Vermont, where the number of babies affected is the same as the mandated size of the committee, it is no wonder that citizens are skeptical of government bureaucracy. (Incidentally, the committee must meet six times a year.)

And just after I was told by a member of my administration that in order to qualify for federal assistance in the area of juvenile justice, federal regulations require me to appoint adjudicated juvenile offenders to a statewide commission.

When federal rules require companies discharging pollution into a dry river bed to receive the same permit required of firms discharging into navigable streams, it is no wonder that businessmen say that government regulators don't know what they are doing.

When a mayor of a town of less than 5,000 people has to travel to Washington to discuss a drinking water problem affecting one household, it is no wonder that scholars conclude that the federal system is overburdened.

Governor George Busbee described the confusion of roles and responsibilities in the current intergovernmental system as follows: It is "difficult to imagine an issue too local or parochial to avoid the attention of Washington policymakers. Pot-hole repair, firefighting, garbage disposal, building codes, have all been the subject of solemn deliberations on the Potomac...to a point where the Congressional Record sometimes bears an uncanny resemblance to the minutes of a county commission meeting."

The intergovernmental system worked adequately when the accepted answer to any problem that couldn't be addressed under existing grants was to create a new program to take care of it. But if the President's projections are accepted by Congress, aid to states and local governments will drop from 15.9% of the federal budget in 1980 to 9.6% in 1985. Spending on education, training, employment, and social services will drop 20%. The block grant programs, which support such important activities as maternal and child health, rehabilitation, alcohol and drug abuse, and child welfare will be cut 15.7%, on top of 13.2% cut last year. Governor Matheson will treat these issues in more detail in a moment.

I do want to say that the fiscal 1983 cuts put the success of the whole federalism program in jeopardy. We will be telling the public that under new federalism, government will work better and yet in order to prove the point, we would begin fiscal year 1984 in a $16 billion hole. That is a prospect that makes even an optimist like me pessimistic.

Mr. Chairman, citizens are complaining that government does not deliver for them now. In the judgment of the Governors, the cuts proposed by the Administration go deeper than the fat in the grants system. It is for this reason that we have called for level funding of discretionary grant programs in FY 1983.

Clearly, just holding grants harmless from budget cuts would not be enough to permit them to solve the problems they were designed to address or to regain the confidence of citizens who believe that government cannot help them. Too many of these programs were crafted without adequate regard to meeting specific state problems and to fixing accountability.

It is these flaws which have created the disaffection of citizens from their government, and it is these flaws which the President's bold federalism initiative seeks to address.

Mr. Chairman, we agree that the economy is the major domestic issue that Congress must tackle this session. But as I have pointed out, the important problems addressed by intergovernmental grants cannot be neglected. These problems will not be met by withered federal programs...programs starved for funds and flexibility...programs burdened by regulations designed for an era of growing appropriations and unsophisticated state and local governments. That is why we believe that the President's federalism initiative deserves immediate and serious consideration by Congress.

In view of the urgency with which the Governors view the intergovernmental situation, we welcome the priority that the President has placed on the issue by speaking about it so extensively in his State of the Union address. By his action, the President has elevated federalism reform to a topic of national debate: a matter worthy of discussion by this Committee, by the Governmental Affairs Committee, and by the Majority Leader of the Senate and the Speaker of the House of Representatives.

NGA policy sets forth many federalism principles and guidelines that are compatible with the President's federalism initiative. We are in full accord with his proposal for federal assumption of Medicaid. We also welcome his far reaching suggestion that a range of categorical programs be transferred to state responsibility. And we believe, as does the President, that a mechanism for financial transition is essential. For the record of these hearings, I am providing an analysis prepared by the NGA and NCSL staff which has been used by the Governors in their work on the President's federalism plan.

The President's federalism proposals contain some elements that are not consistent with existing policy positions of the National Governors' Association, such as assigning responsibilities for food stamps and AFDC to the states. However, we feel these differences can either be reconciled by negotiation or temporarily set aside as we build a program based on existing areas of mutual agreement.

To this end, NGA and the White House have begun negotiations on the federalism legislation to be submitted to Congress. Joining me on the negotiating team appointed by NGA are Governor Alexander, Governor Babbitt, Governor Busbee, Governor Matheson, and Governor Thompson. The White House coordinating group consists of Mr. Baker, Mr. Meese, Mr. Stockman, Mr. Williamson, and Mr. Harper.

In preparation for these negotiations, the Governors worked at the winter meeting to identify areas of consensus and to develop a federalism initiative premised on the areas of agreement. Governor Matheson had a lead role in crafting this compromise. Our proposal is as follows:

1. The federal government would assume full responsibility for Medicaid. The exact savings to the states would depend upon the fiscal year 1983 appropriations levels and the services actually assumed by the federal government.
2. The AFDC-food stamp portion of the original proposal would be deferred for further negotiations. The states will continue discussions on the details of a later proposal for AFDC and food stamps.
3. The states would take over some negotiated set of federal categorical programs (excluding transportation programs). Decisions on programs returned to the states will be made in a spirit of partnership and cooperation with local governments.
4. During the first year, states would be required to fund all programs at the previous year's level. Over the next three years, states could redirect each year one-third of the

total funds for assumed programs to any purpose. By fiscal year 1987, the states would have full discretion over the use of the funds.

5. The transportation programs and the highway trust fund would be dealt with separately, to recognize the unique relationship that has existed between user fees (e.g. the motor fuels tax) and transportation initiatives and the desirability of separating human capital and physical capital programs.
6. Because the cost to the states of the returned programs is in excess of the federal government's estimated cost to assume Medicaid programs, a trust fund would be created at the level of the swap difference. The trust fund would not increase in size, and would be funded from any federal revenue sources.
7. During fiscal year 1984, distribution of the trust fund would be based on historical expenditure levels to hold states harmless. In fiscal year 1985, 20% of the fund could be distributed according to the fiscal capacity of the states; in fiscal year 1986, 40%; in fiscal year 1987, 60%; in fiscal year 1988, 80%; and in fiscal year 1989, 100% could be distributed based upon fiscal capacity. This framework is similar to the proposal made by Senator Durenberger, who has taken a very thoughtful approach to federalism reform.
8. In fiscal year 1989, the President and Congress would re-evaluate the total amount required for the trust fund and determine the most efficient manner to allow the states to retain the appropriate revenue base for returned services.

Mr. Chairman, this last point is an important one. We shouldn't start down the program turnback and trust fund phaseout road without considering where it ends. We are not a nation of separate,

> self-sufficient states. I don't believe the founding fathers saw it that way, and certainly no thoughtful person would see our nation that way today. We are enormously impacted as states by national policy, our own historical development, interstate migration, and the luck of the draw as to where natural resources in current demand are located.
>
> Mr. Chairman, it is not conceivable to me that the end of this federalism road is the turnback of responsibility for the domestic affairs of this nation with the resources to pay for them left to the 50 states alone to work out for themselves.

Just as the President, with his Medicaid proposal, has moved in our direction, we have moved in his:

First, we have agreed to take over a substantial portion of the grant-in-aid system without guarantees of permanent funding. The President proposed a $30 billion swap. We have accepted his proposal.

Second, we have accepted the concept of a trust fund that does not increase in size. This position would have been unthinkable before this year.

Third, we have agreed to discuss an issue which arises in Congress whenever reauthorization of major programs is debated on the floor. I refer here, of course, to the formulas through which federal funds are distributed to the states. As you know, this is a divisive issue. However, many students of federalism agree that restructuring of the system cannot take place without review of the current distribution of funds. Our proposal addresses this issue.

Finally, we have agreed to defer for further negotiations the AFDC-food stamps portion of the original proposal. There is a strong consensus on the historic NGA policy position that income security is a federal responsibility. This policy was reaffirmed by the Governors last month. State assumption of food stamps--now a fully federally-funded initiative--and AFDC is antithetical to this policy. But we have agreed to continue discussions on AFDC and food stamps.

Mr. Chairman, the Governors have entered into immediate discussions with the Administration and Congress concerning the areas of agreement and the subjects left open in our proposal. Our goal is to keep the federalism issue before the American people and to work with the President and the Congress at every opportunity to restore balance to our system of government.

Mr. Chairman, this Committee is in a unique position to reflect, through its discussion of functional spending levels for FY 1984, the commitment of Congress to address the current imbalance in the federal system. We hope your work will reflect support for enactment of federalism legislation that will permit Congress to focus on truly national concerns, that will untie the hands of state and local officials to deliver services they are best equipped to handle, and that will restore citizens' faith in their government.

National Conference of State Legislatures

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February 5, 1982

THE PRESIDENT'S FEDERALISM INITIATIVE

On January 26, President Reagan announced a major federalism initiative, designed to take effect in FY 1984. The purpose of this information memorandum is to provide details on the proposal and to outline some of the major issues associated with it from the states' perspective.

THE PRESIDENT'S PROPOSAL

The following elements of the President's federalism initiative have been proposed and are now being negotiated with the states:

- The "swap" component would involve federal absorption of $19.1 billion in state Medicaid expenditures and state absorption of $16.5 billion in federal AFDC and food stamp costs. These are FY 1984 numbers and assume implementation of major cuts in the AFDC and food stamp programs in FY 1982 and FY 1983.

- The "turnback" component would involve the return of 124 grant programs (sometimes consolidated into 43 generic groups) amounting to $30.2 billion in FY 1984. About $5 billion in FY 1983 cuts are assumed.

- A federalism trust fund of $28 billion would finance the program turnback and equalize gains and losses among states caused by the swap. Of the $28 billion fund, $16.7 billion would come from the windfall profits tax and the remaining $11.3 billion would come from federal excise taxes on gasoline, tobacco, alcohol, and telephone service.

- Between 1984 and 1987, states could opt to receive the funds they would have gotten under the 124 categorical programs either through the categorical structure or without the categorical restrictions (similar to General Revenue Sharing). This transition period would end in FY 1988, when the categorical grants would be terminated.

- Also beginning in FY 1988, the trust fund would decline by 25% each year, with states raising taxes or cutting programs accordingly.

- States opting to receive funds through the categorical programs must pay related federal administrative costs.

- Aid received by states through the trust fund is subject to local pass-through requirements. 100% of aid that would have been allocated through direct federal-local grants must be passed through. 15% of all other non-education funds must be passed through. The General Revenue Sharing formula would be used to allocate pass-through monies.

- States would berequired to maintain basic AFDC and food stamp benefit levels under the swap, but no details have yet been developed.

THE STATE PERSPECTIVE

The President's program recognizes a number of principles that the states have long believed to be essential to a successful federalism reform initiative. These include the following:

- a greater federal role in one major income security program (demonstrated by full federal assumption of the Medicaid program);
- a greater federal role in health care cost containment;
- an extended transition period;
- equity in the state-by-state effect of any proposal; and
- simplification of the current grant-in-aid system.

However, there are a number of issues which must be resolved before the states can take a firm position on the Administration's federalism package. These include the following:

Issues Relating to the Swap

1. Is the swap consistent with the states' view of the appropriate federal role in the federal system?

Governors and State Legislators have long held that income security is a federal function because people should have equal protection from want no matter where they live, because the cost of providing assistance is so great that states--with their unequal tax capacities--would find it difficult to support the program, and because need is determined largely by national economic policy which the states cannot control. Moreover, a national response is required for extraordinary circumstances--such as very high unemployment in a particular sector or a natural disaster--which drain the ability of the states where they occur to support the program needs created.

While the President's proposal incorporates part of the states' position by suggesting a larger federal role in Medicaid, it also assumes reduced federal responsibilities in other important income security programs.

2. Are the calculations of relative federal and state gain/loss under the "swap" based on figures agreed to by the states?

The President's proposal is based on the assumption that state contributions to the Medicaid program will grow to $19.1 billion in FY 1984, a level consistent with the state projections. However, the proposal assumes that the federal share of the food stamps and AFDC programs will be just $16.5 billion, or $4.1 billion less than the amount that the preliminary Congressional Budget Office figures show will be necessary to maintain the current programs in FY 1984. According to the CBO projections, therefore, instead of being a trade favorable to the states by $2.6 billion in the first year, it is unfavorable by $1.5 billion. (see Figure A)

It is important to note that although Medicaid is viewed as one of the fastest growing federal programs, the growth of combined federal payments under AFDC and food stamps outstripped Medicaid growth in the period FY 1978-FY 1981. In those years, federal Medicaid payments grew 54% while federal AFDC/food stamp contributions grew 63%.

The Administration has assumed 5.8% real growth in Medicaid between FY 1984 and 1991 (as compared to a 6.3% rate between FY 1978 and 1982) with an annual inflation rate of 4% and unemployment a constant 5.5%. The President's proposal has valued the AFDC/food stamp program at no real growth (as compared to 8.8% between FY 1978 and 1982). Thus, all of what would have been the state share of these expected cost increases for Medicaid are considered savings and is added to the resources available to the states to take over additional program responsibilities as the trust fund expires. Similarly, the reduced costs projected by the Administration for the AFDC and food stamp programs are counted as savings to the states.

3. What are the federal plans for the Medicaid program?

The state-by-state differences in the Medicaid program have been widely discussed, and it has been suggested that the federal government would have to level this disparity in a national program. A crucial element of the federalism proposal is how the federal Medicaid program would be designed.

This question is important for all states, but it is vital for the "winners" under the swap because they will be forfeiting their allocations under the trust fund to offset their gains in the trade. If the Medicaid program is substantially curtailed (e.g., only basic services are covered, or only welfare recipients are covered), then the "winning" states will be pressured to fund both supplements to the Medicaid program and activities formerly supported by categorical grants with the same dollars. They become losers under these circumstances.

Specific questions that need to be resolved include:

- Will the federal government equalize the state-by-state differences in the Medicaid program? If so, how?

- How can the states be assured that this restructuring will not shift costs back to the states by denying eligibility to groups of current recipients, e.g. the medically needy, or by eliminating rapidly growing services, e.g. long-term care? (One suggestion for a federalized Medicaid program has been that the mandatory services would be continued, but that optional programs would be dropped. Currently, one-third of total Medicaid costs are spent on two optional services -- intermediate care facilities and pharmaceuticals. Ending these services would shift substantial costs to the states.)

- What assurances would states have that the national program would not be reduced substantially after adoption, shifting responsibility back to state and local government? Will the federal government accept maintenance of effort for Medicaid?

- The White House fact sheets indicate that federal assumption of Medicaid will provide about $19 billion of fiscal relief to states in FY 1984. This appears to be an accurate projection of the state share of costs for the current program. Does this also reflect the anticipated level of increased federal support due to the new federal program?

- How will eligibility for a national Medicaid program be determined? Currently, AFDC recipients are automatically eligible for Medicaid. Will this arrangement continue even after the AFDC program is shifted to the states?

4. What federal requirements will be placed on states in connection with the turnback to them of food stamp and AFDC responsibilities?

Specifically:

- The proposal suggests that the states will be required to meet "flexible maintenance of benefit requirements". Does this apply to both current and potential recipients and will it require a minimum benefit or the maintenance of existing benefits in even the highest benefit states?

- Will states be required to continue to provide services to all recipients who are now eligible for AFDC and food stamps, as well as to maintain benefit levels?

- Will future reductions in the remaining federal income security programs, such as veterans assistance and housing, force states to substantially increase state costs to maintain the current minimum level of AFDC benefits?

- How will the states be assisted to meet unusually high income security costs that may result from the impact of federal policy on trade and the economy as a whole?

- Has the federal government reached any decision in relation to its role in the unemployment and employment service activities? Will these decisions have any impact on state income assistance burdens?

Issues Relating to the Turnback

1. Does the gradual reduction and phase out of the trust fund by FY 1991 provide for equity in funding in relation to state need?

   The formulas under which funds for many of the programs now on the turnback list are distributed use some measure of need to determine state allocations. By using the average of the years FY 1979, 1980 and 1981, the proposal locks in the needs based distribution for twelve years. One issue to decide is whether some flexibility should be developed, perhaps through use of a portion of the trust fund aimed at areas of greatest service need or of lowest tax capacity. The nation's demographics argue that many changes will take place over these twelve years.

   The final phase out of the trust fund may not adequately recognize state fiscal disparities. Efforts should be directed toward improveing this final phase in order to establish some protections. One way to approach this, especially if states are asked to bear a major responsibility for income security programs. would be to establish a permanent fiscal capacity equalization fund to replace the federalism funds after 1991.

2. Are the revenues sources being turned back appropriate for use by states to fund the programs included in the turnback?

   The trust fund, which phases out completely in FY 1991, contains two revenue sources: federal excise taxes and the crude oil windfall profits tax. Excise taxes do not keep pace with inflation and thus are commensurate with the rate of growth of grant-in-aid programs only if the programs decline in real dollars over time. Excise taxes, like sales taxes, also place a relatively heavier burden on lower income households. The state-by-state consumption patterns of these goods are largely unrelated to the need for the services. The exception is the motor fuel excise tax (two cents to be returned) which is directly related to the non-interstate highway programs.

   The crude oil windfall profits tax is directed at oil producers. It cannot necessarily be assumed by states when the trust fund phases down because the majority of the oil production occurs in five states. Only 23 states have any production capacity whatsoever. Moreover, the structure of this tax originally was a "profit" tax, which was not designed to be passed on to consumers. Thus there would not necessarily be a price decrease by the producers when the federal tax expired. If the windfall profits tax were converted to an excise tax at the pump, consumers would be paying 14¢ more per gallon of gas.

Senator David Durenberger (R-MN) has proposed that a portion of the federal income tax be dedicated to the state trust fund. He noted that an equalizing formula could be used to distribute such funds. The federal income tax, which is more progressive and responsive to inflation (even after the indexation which is scheduled to begin in FY 1985), might more closely match the characteristics and rate of growth of the programs being turned back.

From 1978 to 1981, federal excise tax collections rose about 5% while inflation rose more than 30%. Individual income tax collections rose more than 35%.

3. Is the size of the trust fund adequate to support the responsibilities returned to the states?

The Administration has proposed that $28 billion in federal revenues be traded for $30.2 billion in programs. However, an OMB spokesman has indicated that the FY 1982 funding for the 124 programs involved was $35.2 billion. The Administration has said that the trust fund will be expanded to reflect the spending levels set by Congress for programs turned back.

As noted above, the "swap" may be disadvantageous to the states by $1.5 billion. Adding the $7.2 billion shortfall between the $28 billion trust fund and the $35.2 billion in program responsibilities, the federalism initiative as now described costs the states about $9 billion in reduced federal aid or new state costs in FY 1984.

4. Are the programs to be turned back appropriate responsibilities for states as opposed to the federal government?[1]

The consistent policy of the states has been that income security programs should be the responsibility of the federal government. Of the programs listed, several, including the WIC program (Women Infants and Children), WIN (Work Incentive Program), Low Income Energy Assistance and the Community Service Block Grant fall into the general category of anti-poverty income assistance. The Legal Services Programs and the CETA program also may be responsibilities whose proposed transfer should be discussed further.

At the present time, it is the position of the states that they are willing to assume primary responsibility for programs in the areas of education, transportation, and law enforcement. Hundreds of small categorical grants remain in the intergovernmental system after the proposed turnback, and some of these may be better candidates for state responsibility than those initially suggested by the Administration.

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[1] The listing of the programs being proposed for return to the states is attached as Appendix A.

5. Does the proposal adequately protect both state and local government?

The list of proposed programs does contain a number of major direct federal - local grants such as general revenue sharing, the Community Development Block Program and the Urban Development Action Grant Program. In these cases, the proposal requires a complete pass through of program funds during the four year transition phase. For other programs whose funds are grouped into the turnback, there is a requirement that 15% be passed through to local governments, regardless of whether the funds have traditionally gone to states.

FISCAL IMPACT OF THE FEDERALISM INITIATIVE

The Problem with the Numbers

It is endemic in all sorting out proposals that numbers (their choice and usage) can quickly become an issue that transcends any philosophical analysis of the proposal. The President's sorting out initiative is no exception. An example of the variance between the numbers used for costing-out the swap is contained in Table A which displays the FY 1981 actuals for the AFDC and food stamp programs, Congressional Budget Office (CBO) estimate of the FY 1984 Medicaid and AFDC and food stamp programs and the Office of Management and Budget (OMB) estimates of the same programs for FY 1984.

For Medicaid, OMB, CBO, and the states agree that it is reasonable to assume a rate of growth in state Medicaid costs of 37% from FY 1982 through FY 1984. OMB counts this growth as state costs to be "relieved" in the swap. Any economies or reductions achieved when the program is federalized are not taken into account.

It is readily apparent, however, that CBO and OMB differ markedly in their estimates of the FY 1984 costs of AFDC and food stamps to the states. The major differences found between CBO's and OMB's estimates of AFDC and food stamps are attributable to two factors. First, OMB assumes that substantial budget cuts will occur before FY 1984 in these two programs. Reports in the press estimate the reductions to exceed $5 billion. CBO, in contrast, assumes that the current program structures would remain unchanged into FY 1984. The second major difference is the economic assumption used in the projection. OMB's model assumes a more optimistic economic climate in FY 1984 than CBO's.

The effect of these differing estimation techniques can be seen by comparing the total program costs estimated by OMB in FY 1984 with current costs. OMB shows a decrease in combined AFDC and food stamp costs of 10.7% over the next three years. CBO shows an increase for the same programs of 12.2% in the same time period.

States should consult with their own budget staff regarding their state's projected AFDC, food stamp, and Medicaid costs estimates. Table A is provided for illustrative purposes, and states should reach their own conclusions regarding the relative impact of the swap proposals.

In the meantime, the states have requested that OMB provide more detailed explanation of their assumptions so that state and Administration analyses can proceed from a common information base.

A Preliminary Analysis of the Impact of the Initiative

Table B is an analysis of the swap proposal using CBO's estimates of Medicaid, AFDC, and food stamp costs. The turnback programs have been adjusted upward by $5 billion to better reflect the current costs of the 124 programs slated for turnback to the states. While the initial White House background materials on the swap assessed the cost of the turnback programs at $30.2 billion, OMB spokesman Ed Dale indicated that the turnback estimate did not take into account planned program reductions of about $5 billion. In the absence of more detailed program information, we have accepted the initial OMB state-by-state estimates readjusted to reflect current program costs.

The column headed "Net Costs States" reflects the cost of the turnback programs plus the cost of the AFDC and food stamp programs less the Medicaid savings realized by the federal assumption of Medicaid. The adjacent column shows the initial White House estimate of the trust fund allocation needed to balance out state losses. Please note that while the trust fund allocation is estimated to be $27.6 billion, the trust fund receipts are estimated to be $28.0 billion. In all cases the initial trust fund allocation is inadequate to cover the costs to states for the turnback programs. Overall, the trust fund is $9.1 billion less than needed to hold the states harmless in FY 1984, without assessing the impact of inflation on the turnback programs (other than AFDC, food stamps and Medicaid).

The notes at the bottom of the chart reflect the net costs or gains to states in the tradeoff of Medicaid for food stamps and AFDC. Twelve states were net gainers in the swap, and these were usually very large gains, reflecting current high state Medicaid costs. There were 39 losers reflecting generally smaller losses compared to the winners' shares.

Overall, in the Medicaid for AFDC and food stamp swap, the winners gained by $3.1 billion and the losers lost by $4.6 billion. In the aggregate, the swap is $1.5 billion short of an even trade to the states.

While the White House appears to accept the principle that the trust fund will be sufficient to balance out these differences in FY 1984, there is a considerable gap between their estimates of the funding level required and CBO's projection of state costs to be assumed. This difference is about $9 billion short of the amount needed to hold states harmless in FY 1984. This difference might suggest the dimension of the cuts to be proposed by the Administration for these programs in FY 1983.

Preliminary Analysis of the Trust Fund Revenues

There are three major issues regarding the proposed trust fund revenues:

- their adequacy for the responsibilities returned - in both the short and long run;
- each state's access to the sources; and
- the relative revenue raising capacity by state compared with the relative state program burden.

Table C address these issues. The adequacy question is answered in the chart run by the totals of the three columns. The first column shows the new state responsibilities as a result of the 124 program turnback and the outcome of the Medicaid - AFDC/food stamp swap. The second is the relative access which states have to the two revenue sources: the federal excise taxes and the windfall profits tax. The fourth column is the net difference. According to our calculations, the trust fund is approximately $9 billion short of the expected responsibilities in the first year. In current negotiations, however, the White House has agreed to make the trust fund eventually equal to actual FY 1984 program levels.

In the long run, the match is dependent on the elasticity of the tax when compared to the elasticity of the program costs. No provision is made for an increase in the trust fund after the first year. The states believe they are able to provide adequate levels of service in the program areas for which they are assuming responsibility more efficiently than the federal government. However, the precise degree of savings that can be achieved and whether the savings will fully offset the costs of inflation is difficult to assess. It would be unrealistic to expect the states to be able to fund any given level of services for eight years without experiencing a need for greater revenues.

No attempt was made here to run a model of the economy through 1991 in order to measure program costs against revenue raising capacity; only current or near term projections of growth are shown.

In view of the inelasticity of the excise taxes and the inflation affecting program costs, the future comparison between responsibilities and revenues turned back needs careful study.

Column three addresses the relative access of states to the taxes turned back. Those states with oil production (five states have 80%: only 23 states have any) are the only ones that can touch a producers' oil tax, which accounts for 60% of the trust fund. Thus in per capita terms, their access to these funds is enormously superior.

The question of the state-by-state match between the new responsibilities and the trust fund revenues is skewed by the windfall profits tax. To measure this match, we have taken only the excise taxes and shown each state's percentage share of any national revenues (column 5). In the final column we have broken down the new state responsibilities (column 1) into state-by-state percentage shares. The aggregate figures here would be quite different ($11.3 billion vs $36.7 billion), but the percentages allow for study of the likely winners and losers from such a match if the totals were more closely aligned. Whatever tax source is considered for a turnback, this comparison will yield important information.

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APPENDIX A: ILLUSTRATIVE LIST OF PROGRAMS FOR TURNBACK TO THE STATES

Category/Program	Number of Grants Made in FY 1981 and FY 1984 Funding Level
Education & Training (5)	$3.3 billion
Vocational Rehabilitation	5
Vocational & Adult Education	13
State Block Grants (ECIA Ch. 2)	28
CETA	8
WIN	1
	55
Income Assistance (1)	$1.3 billion
Low Income Home Energy Assistance	1
Social, Health & Nutrition Services (18)	$8 billion
Child Nutrition	4
Child Welfare	1
Adoption Assistance	1
Foster Care	1
Runaway Youth	1
Child Abuse	1
Social Services Block Grant	3
Legal Services	1
Community Services Block Grant	8
Prevention Block Grant	8
Alocohol, Drug Abuse & Mental Health Block Grant	5
Primary Care Block Grant	1
Maternal & Child Health Block Grant	7
Primary Care Research & Development	1
Black Lung Clinics	1
Migrant Health Clinics	1
Family Planning	1
Women, Infants & Children (WIC)	1
	47

Transportation (12)	$6.4 billion
Grants-in-Aid for Airports	2
Highways:	7
Primary	
Rural	
Urban	
Bridge	
Construction Safety	
Other	
Interstate Transfer	1
Appalachian Highways	1
Urban Mass Transit:	
Construction	1
Operating	1
	13
Community Development & Facilities (6)	$6.4 billion
Water & Sewer:	2
Grants	
Loans	
Community Facilities Loans	1
Community Development Block Grant	2
Urban Development Action Grants	1
Waste Water Treatment Grants	1
	7
Revenue Sharing & Technical Assistance (2)	$4.8 billion
OSHA State Grants	1
General Revenue Sharing	1
	2
GRAND TOTALS:	
Programs	44
Grants made in 1981	125
Funding	$30.2 billion

TABLE A

COMPARISONS OF SWAP COMPONENTS ESTIMATES

($ Millions)

STATE	FY '81 ACTUALS		FY '84 CBO EST.		FY '84 OMB EST.	
	MED.	AFDC + FS	MED.	AFDC + FS	MED.	AFDC + FS
ALABAMA	88.68	375.00	137.00	432.00	140.00	350.00
ALASKA	25.66	53.00	35.00	60.00	32.00	53.00
ARIZONA	0.00	160.00	0.00	186.00	0.00	157.00
ARKANSAS	83.97	189.00	116.00	217.00	137.00	174.00
CALIFORNIA	2004.93	2124.00	2770.00	2322.00	2524.00	2030.00
COLORADO	111.59	146.00	157.00	165.00	161.00	134.00
CONNECTICUT	205.37	185.00	286.00	204.00	277.00	169.00
DELAWARE	30.91	47.00	40.00	53.00	38.00	40.00
D.C.	84.98	103.00	128.00	115.00	141.00	84.00
FLORIDA	220.73	770.00	320.00	876.00	348.00	628.00
GEORGIA	193.26	462.00	270.00	526.00	285.00	431.00
HAWAII	64.04	122.00	88.00	137.00	94.00	106.00
IDAHO	20.70	53.00	32.00	60.00	31.00	51.00
ILLINOIS	801.71	968.00	1002.00	1089.00	857.00	838.00
INDIANA	210.14	306.00	329.00	349.00	336.00	275.00
IOWA	125.99	174.00	169.00	193.00	166.00	140.00
KANSAS	109.62	108.00	145.00	120.00	141.00	94.00
KENTUCKY	122.14	397.00	180.00	452.00	186.00	367.00
LOUISIANA	142.14	395.00	259.00	451.00	309.00	379.00
MAINE	49.65	114.00	77.00	128.00	81.00	102.00
MARYLAND	253.87	310.00	341.00	348.00	342.00	283.00
MASSACHUSSETTS	579.34	503.00	744.00	554.00	669.00	418.00
MICHIGAN	706.71	1057.00	1005.00	1163.00	914.00	874.00
MINNESOTA	316.18	239.00	482.00	262.00	501.00	202.00
MISSISSIPPI	60.95	297.00	92.00	342.00	109.00	293.00
MISSOURI	170.64	320.00	240.00	361.00	247.00	296.00
MONTANA	26.23	38.00	37.00	43.00	43.00	38.00
NEBRASKA	60.14	64.00	80.00	72.00	77.00	60.00
NEVADA	35.87	33.00	52.00	38.00	70.00	30.00
NEW HAMPSHIRE	33.37	47.00	51.00	53.00	57.00	40.00
NEW JERSEY	438.92	623.00	612.00	693.00	558.00	426.00
NEW MEXICO	31.58	131.00	49.00	150.00	57.00	120.00
NEW YORK	3035.45	1879.00	3995.00	2101.00	4202.00	1673.00
NORTH CAROLINA	167.65	404.00	249.00	460.00	277.00	375.00
NORTH DAKOTA	24.91	24.00	39.00	27.00	45.00	20.00

TABLE A

(Continued)

STATE	FY '81 ACTUALS		FY '84 CBO EST.		FY '84 OMB EST.	
	MED.	AFDC + FS	MED.	AFDC + FS	MED.	AFDC + FS
OHIO	515.80	914.00	719.00	1025.00	744.00	815.00
OKLAHOMA	137.40	160.00	193.00	179.00	228.00	146.00
OREGON	100.50	216.00	138.00	246.00	128.00	165.00
PENNSYLVANIA	697.10	998.00	965.00	1116.00	967.00	875.00
RHODE ISLAND	78.90	88.00	105.00	97.00	95.00	78.00
SOUTH CAROLINA	89.00	286.00	118.00	328.00	128.00	282.00
SOUTH DAKOTA	20.70	37.00	32.00	41.00	32.00	33.00
TENNESSEE	144.60	428.00	231.00	494.00	267.00	401.00
TEXAS	548.10	756.00	705.00	876.00	833.00	726.00
UTAH	33.40	69.00	47.00	77.00	61.00	60.00
VERMONT	24.70	51.00	35.00	56.00	32.00	53.00
VIRGINIA	195.30	322.00	283.00	365.00	250.00	288.00
WASHINGTON	223.80	280.00	275.00	313.00	248.00	240.00
WEST VIRGINIA	46.80	172.00	64.00	196.00	65.00	156.00
WISCONSIN	391.60	338.00	549.00	367.00	633.00	296.00
WYOMING	9.20	13.00	14.00	15.00	17.00	14.00
TOTAL	13944.90	18348.00	19084.00	20593.00	18980.00	16378.00

TABLE B

TOTAL SWAP PROPOSAL PROJECTED INTO FY 1984
USING SPECIFIED INFLATION ASSUMPTIONS
($ Million)

STATE	PROGRAM TURNBACKS	AFDC+FS FY '84	MEDICAID FY '84	NET COST STATES	TRUST FUND ALLOCATION
ALABAMA	586.39	432.00	137.00	881.39	713.00
ALASKA	193.52	60.00	35.00	218.52	188.00
ARIZONA	356.73	186.00	0.00	542.73	463.00
ARKANSAS	359.06	217.00	116.00	460.06	345.00
CALIFORNIA	3075.37	2322.00	2770.00	2627.37	2144.00
COLORADO	417.35	165.00	157.00	425.35	331.00
CONNECTICUT	454.66	204.00	286.00	372.66	283.00
DELAWARE	123.57	53.00	40.00	136.57	107.00
D.C.	454.66	115.00	128.00	441.66	333.00
FLORIDA	1343.00	876.00	320.00	1899.00	1433.00
GEORGIA	785.75	526.00	270.00	1041.75	819.00
HAWAII	155.05	137.00	88.00	204.05	145.00
IDAHO	152.72	60.00	32.00	180.72	151.00
ILLINOIS	1824.47	1089.00	1002.00	1911.47	1547.00
INDIANA	713.47	349.00	329.00	733.47	552.00
IOWA	415.02	193.00	169.00	439.02	330.00
KANSAS	317.10	120.00	145.00	292.10	225.00
KENTUCKY	593.39	452.00	180.00	865.39	690.00
LOUISIANA	657.51	451.00	259.00	849.51	634.00
MAINE	255.31	128.00	77.00	306.31	240.00
MARYLAND	659.84	348.00	341.00	666.84	507.00
MASSACHUSSETTS	1145.98	554.00	744.00	955.98	732.00
MICHIGAN	1382.63	1163.00	1005.00	1540.63	1147.00
MINNESOTA	623.70	262.00	482.00	403.70	236.00
MISSISSIPPI	441.84	342.00	92.00	691.84	563.00
MISSOURI	760.10	361.00	240.00	881.10	700.00
MONTANA	153.88	43.00	37.00	159.88	128.00
NEBRASKA	235.49	72.00	80.00	227.49	185.00
NEVADA	113.08	38.00	52.00	99.08	58.00
NEW HAMPSHIRE	146.89	53.00	51.00	148.89	110.00
NEW JERSEY	1210.09	693.00	612.00	1291.09	907.00
NEW MEXICO	219.17	150.00	49.00	320.17	251.00
NEW YORK	3634.95	2101.00	3998.00	1737.95	789.00
NORTH CAROLINA	841.70	460.00	249.00	1052.70	820.00
NORTH DAKOTA	124.74	27.00	39.00	112.74	53.00

Table B continued

STATE	PROGRAM TURNBACKS	AFDC+FS FY '84	MEDICAID FY '84	NET COST STATES	TRUST FUND ALLOCATION
OHIO	1556.34	1025.00	719.00	1862.34	1406.00
OKLAHOMA	387.04	179.00	193.00	373.04	249.00
OREGON	415.02	246.00	138.00	523.02	393.00
PENNSYLVANIA	2040.14	1116.00	965.00	2191.14	1658.00
RHODE ISLAND	164.38	97.00	105.00	156.38	124.00
SOUTH CAROLINA	465.15	328.00	118.00	675.15	553.00
SOUTH DAKOTA	143.39	41.00	32.00	152.39	124.00
TENNESSEE	661.01	494.00	231.00	924.01	702.00
TEXAS	1699.73	876.00	705.00	1870.73	1352.00
UTAH	213.34	77.00	47.00	243.34	182.00
VERMONT	113.08	56.00	35.00	134.08	118.00
VIRGINIA	675.00	365.00	283.00	757.00	617.00
WASHINGTON	585.23	313.00	275.00	623.23	493.00
WEST VIRGINIA	394.04	196.00	64.00	526.04	429.00
WISCONSIN	666.83	367.00	549.00	484.83	235.00
WYOMING	89.77	15.00	14.00	90.77	75.00
TOTAL	35197.70	20593.00	19084.00	36706.70	27599.00

Notes

The states that would lose in the Medicaid for AFDC and food stamp swap would lose a total of $4.6 billion.

The states that would win in the Medicaid for AFDC and food stamp swap would gain by $3.1 billion.

The trust fund is short of the cost of the turnback programs by $9.1 billion.

Assumptions

Program turnback costs are adjusted upward by $5 billion to reflect OMB's most recent estimate.

AFDC and food stamps reflect FY 1981 federal costs adjusted by CBO based on national projections of FY 1984 costs.

The Medicaid figures are based on FY 1982 state estimates of state costs adjusted by CBO.

The trust fund allocation column is the amount specified for illustrative purposes in White House information packages.

Please note that the total trust fund allocation to states does not equal the $28.0 billion estimated in trust fund receipts.

TABLE C

State	Net Fiscal Burden on States FY 1984[1] (millions $)	State Accessibility of Trust Fund Revenues (FY 1984 values; millions $)[2]	per capita value of trust fund revenues (column B)	Difference (B-A; millions $)	State Shares (%) of excise tax revenues only[3]	State Shares (%) of net Fiscal Burden (column A)
Alabama	$ 881.39	$ 287.29	$ 73.68	$ - 594.10	1.43 %	2.40 %
Alaska	218.52	2584.88	6430.06	2366.36	.21	.60
Arizona	542.73	137.91	50.63	- 404.82	1.21	1.48
Arkansas	460.06	217.10	94.76	- 242.96	.84	1.25
California	2627.37	3473.54	146.38	846.17	11.43	7.16
Colorado	425.35	335.57	115.88	- 89.78	1.46	1.16
Connecticut	372.66	158.01	50.72	- 214.65	1.40	1.02
Delaware	136.57	55.83	58.92	- 101.39	.31	.37
D.C.	441.66	35.18	87.23	385.83	.49	1.20
Florida	1899.00	793.18	80.46	- 1105.82	5.04	5.17
Georgia	1041.75	270.00	49.29	- 771.75	2.39	2.84
Hawaii	204.05	44.73	46.21	- 159.32	.40	.56
Idaho	180.72	41.39	43.71	- 139.33	.37	.49
Illinois	1911.47	805.97	70.41	- 1105.50	5.17	5.21
Indiana	733.47	301.21	54.74	- 432.26	2.24	2.00
Iowa	439.02	129.65	44.40	- 309.37	1.15	1.20
Kansas	292.10	671.35	283.39	379.25	.90	.80
Kentucky	865.39	236.46	64.43	- 628.93	1.58	2.36
Louisana	849.51	1346.03	319.34	496.52	1.87	2.31
Maine	306.31	56.72	50.29	- 249.59	.50	.83
Maryland	666.84	233.99	55.36	- 432.85	2.07	1.82
Massachusetts	955.98	309.96	53.90	- 646.02	2.74	2.60
Michigan	1540.63	666.73	71.85	- 873.90	4.04	4.20
Minnesota	403.70	210.31	51.46	- 193.39	1.86	1.10
Mississippi	691.84	266.60	105.50	- 425.24	.97	1.88
Missouri	881.10	228.52	46.36	- 652.58	2.02	2.40
Montana	159.88	225.12	285.32	65.24	.38	.44
Nebraska	227.49	128.13	81.40	- 99.36	.67	.62
Nevada	99.08	76.41	95.40	- 22.67	.68	.27
New Hampshire	148.89	82.44	89.31	- 66.45	.73	.41
New Jersey	1291.09	383.66	51.92	- 907.43	3.40	3.52
New Mexico	320.17	559.57	429.45	239.40	.56	.87
New York	1737.95	861.89	48.95	- 876.06	7.55	4.73
North Carolina	1052.70	289.92	49.24	- 762.78	2.57	2.87
North Dakota	112.74	203.04	310.46	90.30	.32	.31
Ohio	1862.34	604.61	55.86	- 1257.73	4.20	5.07
Oklahoma	373.04	1276.24	420.79	903.20	1.22	1.02
Oregon	523.02	134.57	50.99	- 388.45	1.19	1.42
Pennsylvania	2191.14	534.25	44.91	- 1656.89	4.48	5.97
Rhode Island	156.38	50.76	53.44	- 105.62	.45	.43
South Carolina	675.15	153.03	48.92	- 522.12	1.35	1.84
South Dakota	152.39	41.46	59.83	- 110.93	.31	.42
Tennessee	924.01	202.08	43.91	- 721.93	1.73	2.52
Texas	1870.73	6480.13	454.33	4609.40	6.13	5.10
Utah	243.34	184.16	125.71	- 59.18	.42	.66
Vermont	134.08	30.61	59.67	- 103.47	.27	.37
Virgina	757.00	258.78	48.29	- 498.22	2.29	2.06
Washington	623.23	197.90	47.80	- 425.33	1.75	1.70
West Virginia	526.04	101.35	51.87	- 424.69	.69	1.43
Wisconsin	484.83	262.36	55.62	- 222.47	2.32	1.32
Wyoming	90.77	779.40	1647.77	688.63	.28	.25
TOTAL	$ 36706.70	$ 27997.98[4]	$ 123.26	$ - 8706.70	100.039 %	100.00 %

Source: Data for columns 2,3 and 5 from Advisory Commission on Intergovernmental Relations

(1) FY 1982 value of turnback programs plus CBO FY 1984 estimate of AFDC and food stamp costs minus CBO FY 1984 estimates of state Medicaid savings.

(2) Revenues generated by state assumption of federal excise ($11.3 billion) and crude oil windfall profits ($16.7 billion) taxes; based on 1980 consumption patterns and oil production values in states.

(3) Based on $11.3 billion turnback in FY 1984, (excludes the windfall profit tax revenues) and state 1980 consumption patterns.

(4) Computed by ACIR based on the orginal Administration's $28.0 billion trust fund.

National Governors' Association
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News Release

FOR IMMEDIATE RELEASE
1-82

Contact: Joe McLaughlin
202-624-5331

WASHINGTON, Feb. 8--Speaking as chairman of the National Governors' Association, Vermont Gov. Richard Snelling said today that President Reagan's proposed 1983 federal budget cuts would, if enacted, weaken the capacity of state and local governments to assume larger responsibilities under the president's federalism initiative.

"A recommendation for deep cuts in federal aid to state and local governments was predictable, since the administration decided to maintain the pace of its defense build-up and its tax reductions," Snelling said. "It is equally predictable that the cuts will be opposed by the great majority of state and local officials.

"These cuts would fall heavily on many of the nation's most needy citizens," Snelling said, "and would shift unacceptable burdens to state and local governments already struggling with the recession and deep 1982 federal aid reductions.

"Our determination to oppose these cuts is based not only on these concerns but on our genuine interest in exploring with the president his proposals for an historic sorting out of federal, state and local government responsibilities. We applaud both the boldness of the president's federalism plan and his willingness to negotiate on the details.

"But it would be unrealistic to expect the states to support another round of deep budget cuts in 1983 with still greater responsibilities looming in fiscal 1984 and beyond. In part because of the cuts projected in this budget, it appears that the administration's federalism plan would put an additional $~~10~~ 9 billion burden on the states in 1934."

Snelling said the budget falls short on four important points the association's Executive Committee endorsed in a Dec. 4 letter to the president:

--the Executive Committee urged level funding of state and local "non-entitlement" programs in fiscal 1983 and 1984; the administration's budget cuts such programs by $5.9 billion;

--the Executive Committee proposed that if discretionary programs were to be cut, the reductions be balanced with comparable increases in the federal share of welfare, medicaid, and other income security programs; the administration's budget cuts these state-administered income security programs by $3.9 billion;

--the Executive Committee called for greater scrutiny of defense spending and tax expenditures and for even-handed treatment of direct federal entitlement programs, many of which are not based on need, and state-federal entitlements, where need is always a factor; the budget increases defense by 18 percent, proposes modest tax revisions, and cuts direct federal entitlements by 2.2 percent and state-federal entitlements by 11.7 percent.

--the Executive Committee called for increased attention to capital infrastructure needs; the budget provides $2.4 billion for wastewater treatment plants in both fiscal 1982 and 1983 but continues to delay and stretch out other capital infrastructure spending, including highways, rail systems, and airports.

The disproportionate cuts in state-federal entitlement programs will impose hardships on the poor, Snelling said. "The changes in welfare and food stamps will shift costs to the states, many of which will not be able to protect the needy from the cuts," he said. "With a few welcome and innovative exceptions, the same can be said for the medicaid changes."

The budget continues a trend the Reagan administration started last year of increasing the proportion of flexible aid to state and local governments. Once again, however, the increase in flexibility is at the cost of substantial cuts in funding.

Overall, grants to state and local governments would drop from $91.2 billion in fiscal 1982 to $81.4 billion in fiscal 1983. The cut maintains only 74 percent of the purchasing power of fiscal 1981 grants.

Broad-based grants (block grants and revenue sharing) account for 25.4 percent of the total, up from 20.6 percent in fiscal 1982. The increase results partly from proposals for seven new grant consolidations, expansion of three block grants enacted last year, and continuation of six existing block grants. However, budget authority of all of the block grants is reduced by $2.9 billion, or 15.7 percent, below 1982 levels.

National Governors' Association

Richard A. Snelling
Governor of Vermont
Chairman

Stephen B. Farber
Executive Director

December 4, 1981

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As your first year in the White House draws to a close, I want to express, on behalf of the nation's Governors, continued support for your goals of strengthening both our federal system of government and our national economy. As you noted in a recent interview, the Governors were of significant help to you in both areas this year.

Although we did not obtain as much flexibility to administer federal programs as we (and you) would have liked, and although we did not see eye-to-eye on all budget issues, the numerous meetings we have had with you have been useful and productive from our viewpoint, and I hope from yours. We appreciate the progress that has been made in consolidating grant programs and in streamlining federal regulations, and we want to continue to work with you in pursuing these important objectives.

At the same time, we must report to you that while we continue to support your broad goals, we disagree in some specific areas, as we indicated to you on September 24, on the best means of achieving them. There is strong bipartisan concern among the Governors that further drastic reductions in federal domestic programs cannot be pursued without inflicting additional hardships on those in need. Similarly, while we fully support your goal of strengthening our military defense capability, we also believe that a sound economy, an adequate transportation system, and a well-educated and highly-trained workforce are also essential to our national security.

In accordance with these concerns, our Executive Committee and Standing Committee Chairmen would like to emphasize the following points:

1. To help control federal spending and to provide needed stability in state budgeting, we propose -- as your budget plan of March 10 suggested -- level funding in nonentitlement grant programs in FY 1983 and 1984 with no adjustment for inflation.

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2. Pursuant to our sorting out agenda, we propose that any further cuts in discretionary grant programs be accompanied by comparable increases in the federal share of Medicaid and AFDC. We oppose efforts to reduce the federal responsibility for these income security programs.

3. Cuts in entitlement programs to date have been focused disproportionately on those based on need, particularly the state-federal programs, AFDC and Medicaid. As further spending reductions are considered, we believe that defense, indexed entitlements, and tax expenditures must all receive close scrutiny.

4. If the economic recovery program is to succeed, we believe that the nation's public works and capital infrastructure needs must be more effectively addressed. The current impasse over funding for the wastewater treatment construction program for FY 1982 must be resolved immediately.

Finally, because we believe that the potential for cooperation between the federal government and the states has not yet been fully tapped, we propose that your Administration join with us in a domestic summit to develop a consensus for achieving the goals that we share. This summit could involve the bipartisan leadership of the Congress and the National Governors' Association, as well as elected local officials. Its purpose would be to agree on specific goals for reducing the federal deficit and to devise an equitable distribution of resources and responsibilities among the federal, state and local governments.

Under your leadership, I believe that a domestic summit could significantly aid you in developing a consensus on what will be otherwise intensely divisive issues in the years ahead. As such, it will bring the nation tangible benefits in terms of a stronger economy and a more responsive political system. Equally important, it would dramatize, as few other steps could, the depth of your commitment to restoring our federal system.

Sincerely,

Richard A. Snelling

Governor Richard A. Snelling

Chairman **Domenici**. Well, I really appreciate both your statements. I think you are right.

You do not have to spend a lot of time talking to me. You have made your points here.

CUTTING BLOCK GRANTS WOULD BE DEVASTATING

I would suggest, Governor Matheson, that you have made one very qood point—and I will get to you, Mr. Kiser, in just one moment—Governor Matheson, you have made one very good point and I think you ought to, through your national office, reemphasize it throughout the appropriations process. That is, however, meager those block grants were, in terms of a genuine plan and they are—it would, in my opinion, be devastating to come along before they even get started and dramatically cut them.

I think what we do by that approach is to just lend resonance to the chorus of opposition that already exists for even that episode. It will come to your doors because you want to try to make them work, as fragile as they are in dollars and lacking in flexibility, and they are all those things. We would not have any blocks but for the reconciliation. I think you know that.

You are again preaching to the choir, but again there are those who do not want any blocks. If we come along and chop those 15, 20 percent more, it would appear to me that they would be in your State capitol saying, "we knew they would never work."

Governor **Matheson**. Yes, Mr. Chairman, it turns out if we were to absorb those additional cuts on the existing blocks, that is a blueprint for disaster in terms of having a successful transition in federalism.

I would hate to see that great experiment fail for that reason because that would be a poor basis to end the dialog on something as important and intriguing as the federalism concept.

Chairman **Domenici**. In the larger scope of things, Governor Snelling's point and yours, that if you start from an extremely low categorical grants' base, federalism is going to be met with the same resistance because it will be assumed that those kinds of activities cannot be continued by the States. Then we will be back up here in 4 or 5 years again hearing "we knew they would never do it. They did not care about the poor, the Governors do not have compassion." With that, I will call on Mr. Kiser. I am delighted to have you here.

I do hope that your group nationally continues to grow and prosper and that you develop your national expertise to work with us because it is kind of common knowledge that many people that report on these matters assume the following scenario for compassion in taking care of people in need: We in the Congress are the compassionate group and the Governors are next. If we are going to risk anything, let them do it, but do not let those State legislatures do it because they do not have any concern, they lack compassion, and if you give them any flexibility they will indeed do nothing for anyone in need.

I have not read your statement, but I hope you will refute that, both individually and on behalf of your association.

You are welcome here.

STATEMENT OF HON. S. CURTIS KISER, MINORITY LEADER, HOUSE OF REPRESENTATIVES, STATE OF FLORIDA, FOR THE FLORIDA LEGISLATURE AND ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. KISER. Thank you, Senator.

Along with my colleagues here at the table, I want to thank you for the opportunity to address the fiscal year 1983 Federal budget and the federalism initiatives and bring to you not only my concerns about the State of Florida, but also the concerns of the National Conference of State Legislatures.

My name is Curt Kiser, and I serve as the minority leader of the Florida House of Representatives for the past 4 years. I have served in the legislature for 10 years and represent the Clearwater Area of Florida. I have been active for several years with the National Conference of State Legislatures and now serve as chairman of the Committee on Government Operations, which carries the responsibility for policies on Federal tax and budget issues.

The National Conference of State Legislatures is the official representative of the Nation's 7,500 State legislators and their staffs, and works to help State lawmakers meet the challenges of the complex federal system. NCSL has three objectives: to improve the quality and effectiveness of State legislatures; to assure States a strong cohesive voice in the Federal decisionmaking process; and to foster interstate communication and cooperation.

One year ago, NCSL testified before the Senate concerning President Reagan's fiscal year 1982 budget.

WILLING TO TAKE FAIR SHARE OF REDUCTIONS

NCSL called for restraint in Federal spending and explained our willingness to take a fair share of the needed reductions to help in balancing the budget and controlling inflation. We argued that when grant funds to States and localities were being reduced, increased flexibility and autonomy should be given States to insure more efficient use of the funds, but we argued that mandates had to be reduced where aid was cut. We asked specifically for block grants. We asked that Congress join with us and the administration and the Nation's Governors and local elected officials to sort out programmatic responsibilities to end the duplication and complex maze of intergovernmental confusion which now exist. We argued for lead time and timely Federal budget decisions to enable us the opportunity for realistic planning and budgeting. We argued that the needy had to be protected with a fair and effective safety net. We also suggested that the defense budget be examined for possible savings and that cost-of-living increases in Federal entitlement programs be examined for possible improvements.

What happened last year? That willingness to accept our fair share of budget cuts turned into an 11 percent cut in outlays and a 31 percent drop in real spending for budget authority. At the same time States had to act to keep from losing revenues: 38 States are tied by statute to the Federal corporate income tax, especially the depreciation schedules. Most of these States faced heavy lobbying from a business community arguing that the Congress intended that they get those reductions—both in Federal taxes and State taxes. Because of the need for revenues, more and more States are standing up to the pressure and decoupling from the Federal depreciation schedules, or trying for some compromise to retain the administrative simplicity of one set of books while retaining the revenues. Most recently Indiana and Iowa raised their corporate rates while accepting the depreciation schedules.

Earlier State actions include: Alaska retained the existing depreciation schedule for oil and gas companies which pay approximately 90 percent of their corporation income tax; other companies may use ACRS; Connecticut will allow companies to claim the following proportions of ACRS depreciation allowances: 96 percent in 1981; 91 percent in 1982; 84 percent in 1983; and 77 percent in 1984. The law silent on later years; Hawaii adopted ACRS; Maine adopted ACRS for 1981; Minnesota will allow taxpayers to claim only 85 precent of ACRS in 1981 and 83 percent in 1982. No decision has been made for later years; Ohio will allow companies to claim only 90 percent of ACRS for 2 years; they will be allowed to claim the other 10 percent over the following 5 years; Oregon retained its existing depreciation system at least until 1983, when the issue will be reexamined; Pennsylvania postponed adoption of ACRS for 2 years after which it will be phased in; and Wisconsin adopted ACRS, but this action was part of a package raising business taxes through other means in order to reduce the State's revenue loss.

MAJORITY OF STATES RAISE TAXES

This past year, the majority of States—31 States—raised taxes. My home State just Tuesday, in the House, voted to raise another penny on our State sales tax. Remember that 41 States' legislatures were out of session by July: The Omnibus Reconciliation Act was not adopted until August. We raised those taxes to meet our own needs. We are just now beginning to respond to last year's Federal cuts.

And what flexibility accompanied the Federal cuts enacted? The block grants bear little resemblance to the administration's original proposals except in the dollar reductions. They are filled with maintenance of effort and categorical spending requirements. Only if States are really given autonomy to originate creative changes in the programs can we expect States to gain savings from block grants. There is very little, if any room for real State administrative improvement in the block grants the Congress eventually adopted.

Before I leave the fiscal year 1982 question, I would like to make a few additional points.

I believe that it is representative of a much more serious problem in your appropriations and budgeting process that we find ourselves on March 12, 1982, without a finalized Federal budget for the current fiscal year which is nearly half over. Those of us in State government are apprehensive, to say the least, that the Federal budget process provides absolutely no method whereby we can plan, anticipate and budget with any certain knowledge about what the Federal funding levels are going to be. While you are still in the progress of finalizing a budget for the current fiscal year, we in the State legislatures are required by law to proceed to put together State budgets for the next fiscal year beginning in most of our States on July first.

It is inconceivable that we can be seriously discussing a stronger federalism partnership between the various levels of government, when we at the State and local level are left so completely in the dark about what your plans and decisions are until long after we have been forced to complete our own budget decisions. What you decide affects us directly yet we in Florida are still trying to determine the impact of the present year's Federal budget decisions.

BUDGET SYSTEM NEEDS REVISING

Your system of budgeting is in desperate need of revision—we cannot have any kind of true partnership when your process takes place so long after we are required constitutionally and statutorily to have our work finished. If we are to jointly administer billions of dollars for programs and services for the people of this country, we ought to sit together more frequently to truly analyze the effects of our mutual decisions before the decisions have already been made.

I would offer a suggestion to the Congress that those of us in State legislatures have learned to live with and find a necessary curb to our procrastinating tendencies: I would suggest that Congress make a rule or pass legislation to require that September 30 is the date by which Congress must adjourn annually, except in the case of national emergency. Such a rule would have a number of positive implications:

You would be forced to finish the Federal budget by the start of the Federal fiscal year on October 1. I find in my own legislature that the looming of adjournment deadline forces agreement and resolution on seemingly insoluble problems. Being required to go home is the only way to get us to finish.

Members of Congress would be forced to return to their home States for periods longer than weekends, and have the opportunity to live with your constituents and your legislators and your decisions. It is important for us as State legislators to have to go home and live with our people for several months out of the year; and it forces us to keep in closer touch with them than we might be able to do during the legislative session.

Members of Congress would become more familiar with the functioning and performance of State and local government, perhaps to the point of being able to place greater trust in us. I feel that many of the restrictions and requirements of the Federal grant system result from this lack of communication and trust.

Mr. Chairman, do you think I should go back and repeat that last part?

Chairman DOMENICI. I will tell him about it.

[Indicating to Senator Exon.]

FUTURE GROWTH OF ECONOMY OVERSTATED

Mr. KISER. One last concern before I move on is that the Federal Government consistently seems to overstate the future growth of the economy. Such projections should not be subject to political votes or arguments. Some set methods should be agreed on, and if possible, when alternative forecasts are developed, the more conservative should be adopted. That way when there are surprises, they will not as likely be on the negative side.

But enough of last year's budget. This year's budget debate must be held in light of a significant worsening of the economy as well as the fact that State and local governments took more than their share of budget reductions last year. A recent survey by the National Conference of State Legislatures reveals the fiscal condition of the States to be much worse than just 1 year ago. The Governors have just commented on this. This survey was made in November.

The worsening of the economy since November argues that many State revenue projections are even lower today. Twenty-nine States expect to conclude their current fiscal years with yearend balances of 1 percent or less, including 12 States which anticipate the need to raise revenues during their sessions for the current year. A 5- to 7-percent balance has usually been considered a reasonable safeguard to protect against unforeseen development and to help tide a State over seasonal periods when revenues lag behind. Do not forget that these statistics include those 31 States which raised taxes last year. For your information, I have submitted a copy of that fiscal survey.

Likewise, I have the same figures to state that Governor Matheson stated, and I will not restate them again.

CONCERNS WITH PARTS OF PROPOSED BUDGET

Let me spend a few minutes outlining the concerns which NCSL and I have with parts of the President's proposed budget. I will try to structure them in a constructive fashion so that as your committee drafts its resolution you can refer to the principles I am addressing as well as the program examples.

Certain reductions only result in a shifting of costs to the State or local level. To propose that States become responsible for all but 3 percent of the errors in entitlement programs in fiscal year 1983—resulting eventually by fiscal year 1986 in all errors being the responsibility of States—will not make them disappear. States have not been taking this Federal assistance and throwing it around to everyone. The reason that error rates exist above the 3 percent—and in the food stamp program the rate is closer to 13 percent—is that each of these programs has its own set of regulations for eligibility and for what constitutes includable and excludable income. States have greatly improved their error rates in the past few years. They should be encouraged and rewarded for their success in lowering these error rates rather than penalized.

Another problem is that too often States are asked to perform functions and services mandated at the Federal level, but are not provided with sufficient funds to carry them out. A prime example of this situation occurs in the funding to State and local governments for air, water, and land pollution control programs. While the mandates for these programs remain, the funding levels proposed in the administration's fiscal year 1983 budget proposal are 23 percent below fiscal year 1982 level and 33 percent below the fiscal year 1981 level.

In the aid to families with dependent children program (AFDC) the fiscal year 1983 budget proposes 15 changes to be made in the

Federal standards for the program. Perhaps this helps to explain why error rates are so high. These revisions are projected to save some $2.2 billion by fiscal year 1983. But they require States to some of the major provisions provide job searches for AFDC applicants, prorate shelter costs for shared households, reduce benefits to reflect energy assistance as income, and initiate workfare. Such changes and mandates require greater costs at the State level. The capping of these administrative funds will shift these costs to States.

Another problem is that these proposals create particularly difficult implementation problems for State legislatures. The Federal savings associated with many of these proposals assume that State legislatures will act to amend their programs prior to the beginning of the Federal fiscal year. Not only will statutory changes be difficult to achieve within that time frame, but regulatory and administrative procedures such as adequate notice and hearings will make it virtually impossible to fully implement changes at the State level by October 1. If the decisions on Federal budget policy take anywhere near the 8 month time period they did last year, States will not have sufficient time to implement the changes in a way that would minimize the impact on program recipients.

ADEQUATE TIME NEEDED

State legislatures need adequate time to implement changes in their programs not only in relation to their budget policy, but also to initiate and enact statutory changes. Authorizing committees at the State level need adequate time to analyze proposed changes in their laws, to evaluate alternatives, to schedule hearings and to develop solutions which are best suited to the population of their States. The Congress insists on similar procedures and should allow States the opportunity to develop policy changes in a fair and equitable manner.

The President has proposed a list of tax provisions. The minimum corporate tax, while it does close some tax expenditure loopholes—and there is a need to examine that side of tax policy—threatens an already weak market. The way this tax provision would apply to financial institutions, particularly commercial banks, would remove the incentive for banks to purchase or hold tax-exempt bonds including general obligation bonds. These banks currently hold $152 billion of the $328 billion outstanding securities of all types. Thus, the State and local bond market which is our only source of capital for long-term construction financing would be damaged even further.

If banks are not allowed these tax exemptions as incentives to invest, and if the Congress continues to reduce aid for things like wastewater treatment, plants, sewer construction, and mass transit and the like, there will soon be no such projects in the country.

These tax policy questions can be very important to domestic spending programs, and I urge you to look closely at this issue in particular.

TAX EXPENDITURES

I'd like to address the area of tax expenditures further. By removing obsolete incentives, closing some of the tax loopholes and tightening existing tax laws, significant Federal revenue increases could be realized. The Congressional Budget Office has estimated their combined value in fiscal year 1983 at more than $300 billion—nearly half of the entire Federal budget. At the same time, these efforts could reduce Federal intervention in the economy. Tax expenditures are subsidies in the form of special tax provisions designed to stimulate particular kinds of economic activity or to relieve hardship. Like Federal spending, these special tax provisions are a way of allocating resources to some groups or sectors of the economy at the expense of others. Many of these incentives for particular business investments are no longer as essential as when initially enacted because the industries and their markets have grown in accordance with the original intent of the special tax advantage. Many of them are also less necessary because of the major increases in business depreciation allowances enacted in 1981. Thus tax expenditures should be reexamined.

One other area of possible savings is the military budget. The domestic side of the budget has faced spending cuts and administrative across-the-board cuts designed to weed out waste, fraud, and abuse. It is only fair that similar attention be devoted to military spending. Because of its size, a 2 or 3 percent savings could generate a significant amount of money. Serious efforts should be made to control military spending in any way which would not compromise our national security. Because the size of the increased spending is so great, it should be watched by the Congress as it exercises its oversight responsibility. Major growth of that size can be subject to greater occurrences of waste and fraud. The savings which can be realized in this area can contribute importantly to the domestic side of the budget.

The effect of the fiscal year 1983 budget on the State of Florida is probably most measured by its effect on the economy. Our State relies on a sales tax and a strong tourist industry. However, we are also a major growth State. That means we really cannot precisely predict from one year to the next the needs of our population. It changes more than that of most other States. When the economy is growing, our revenues are secure and our new residents are likely to be less in need of new services. The current situation is a double problem for the State.

FEDERALISM

Let me now address the question of federalism. For several years the National Conference of State Legislatures has been actively involved with other public interest groups like the National Governors' Association and Members of Congress, like yourself, Mr. Chairman, and the Advisory Commission on Intergovernmental Relations. All of us have expressed grave concern about the present confusion of the intergovernmental system.

NCSL applauds the administration for joining in this discussion and for making a bold proposal. NCSL has provided your committee with several policy statements on this issue. A task force on revenue turnbacks was established last September and I was pleased to serve as a member. That statement forms the core of our position. I also have submitted a copy of each of these policies.[1]

The proper division among the levels of government of responsibilities and the revenues to provide for them is the key to the discussion. It is a lively debate and an important one. State legislators along with Governors and local elected officials all have legitimate roles to play in the discussion and I am pleased that the administration and the Congress have included us in their discussions and negotiations.

Our stance is clear in assigning the primary responsibility for a sound economy and an adequate defense to the Federal Government. We also feel that the financing of income security programs must rest at the Federal level both because of the cost of the programs and the role which the economy plays in their costs.

States and local governments should bear the primary responsibility for State and local highways, education, law enforcement, libraries, and fire protection.

Our other major concerns relate to the makeup of the trust fund (we would prefer an earmarked portion of the income tax), the local passthrough provisions (we feel it should more closely reflect the State-local relationships in each State and questions) over specific programs included in the exchange.

We applaud the major provisions which allow genuine leadtime to States, and which holds States harmless throughout the transition period. We applaud the administration's proposal to take over medicaid, and turn back over 100 grant programs. And again, and most important, we are pleased that we have the opportunity to talk about the proposal throughout the drafting stages.

I would like to state, too, that at most of the meetings that I have been involved with, it is the sincere feeling across the board, from the legislatures that I have been involved with, in these various committees, that if this bold new experiment of Federalism is to stay alive and bring about a better balance in our constitutional system, we have got to have other fundamental changes, reduction of the mandates, and requirements, before we can experience any further cuts.

MISGUIDED PROGRAMS

I would like to share one other story about a situation that happened in Florida. When we talk about how the Federal programs are well attended, but for some reason they end up being misguided, several years ago we initiated a program in our State program of State testing. I think the first year we did the State testing, we started at the eighth grade level. The first year those tests came in we could not figure out why one small county in northern Florida had such high test scores. Their students scored higher than any students in the State, by county check.

We checked on the funding, and did not find out why they should have high test scores. Finally, someone got the idea of checking the impact funds. When the impact funds were thrown into the pot, and examined, we found out that that county had almost the double expenditures per pupil, when you count the Federal funds, and what is unfortunate about that is that our State equalization formula already takes into account, many counties in my State are a donor system. We donate into the other counties. We make up for the lost tax base in counties that have a lot of property over the tax roll. So we were already subsidizing that county with State moneys, and we spent all of our time trying to fine-tune and balance that equalization formula, and then they dropped all the Federal funds on top of it, and totally destroyed the balance of State funds that we were trying to balance.

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[1] See p. 242.

That is just a perfect illustration of many times, while the funds are well intended they do violence to the State policy, that we spend our time working on.

We do try, at the State level, to balance the needs of our State, and if the Congress would just be a little more willing to trust us, give us a chance with these programs, I think we would certainly like to have that passed to us.

Chairman DOMENICI. Thank you, Mr. Kiser.

STATE FISCAL CONDITIONS AS STATES ENTERED 1982

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SUMMARY

1. The recession is causing severe budget problems for a majority of states. According to an NCSL survey of legislative fiscal officers conducted from mid-November to mid-January, 29 states expect to conclude their current fiscal years with deficits or with balances equal to one percent or less of their annual spending.

2. Nineteen states reported that spending is expected to rise 8 percent or less in 1982, and spending in 8 other states is rising at a rate between 8 and 10 percent.

3. Twenty-one states indicated that revenue during the current fiscal year has been below official forecasts, while only 10 reported to exceed the forecast.

4. Twenty-four states reduced their employment during the twelve months preceding the survey.

5. When most states responded to the survey, the latest information on tax collections was for October. In view of the sharp decline of the economy since then, the current situation (in mid-January) is even gloomier that the survey indicates.

6. Many states are likely to raise taxes and reduce expenditures over the next few months in order to avoid deficits and enlarge surpluses.

7. Among the states with the most serious budget problems are Washington, Minnesota, Ohio, Oregon, Michigan, Kentucky, Massachusetts, and California. Most regions of the country are being affected, including the Sunbelt.

8. Seven state anticipate large budget balances, that is, at least ten percent of annual spending. All of them are west of the Mississippi and most have booming oil, natural gas, and/or coal industries.

9. The cutbacks of federal aid are not the primary cause of state fiscal distress, but they exacerbate it. Those cutbacks could hardly have come at a worse time in view of the anemic state of state budgets.

With their revenues buffeted by the national recession, the majority of states entered 1982 either in deficit or teetering on the brink of deficit. Taxes in most states are coming in more slowly than had been anticipated when budgets were passed during the first half of 1981. Many states are trimming their workforces.

These are the most important findings of a survey of legislative fiscal officers conducted by NCSL's Fiscal Affairs staff in late 1981. One implication of this survey is that in most states budget deliberations this year will be more excruciating than usual. Many states will raise taxes and other user charges such as college tuition, and spending growth will be strictly limited. The outlook is that many programs, particularly those formerly dependent on federal aid, will be trimmed.

WHAT THE SURVEY RESULTS DO (AND DO NOT) MEAN

The survey results provide a good indication of the condition of state budgets as the states entered 1982. Several important qualifications must, however, be noted about the findings.

First, the survey refers to general fund spending and revenue, which does not include certain special funds, such as for highways in most states. Federal aid is generally not included in the general fund, so it is not reflected here. A number of states, particularly those with booming energy industries, dedicate a portion of their tax revenue collected from those industries to trust funds. The general fund accounts for the majority of total spending in nearly all states, and it is the focus of most attention in budget deliberations.

Second, many states with projected deficits or small surpluses will undoubtedly take actions during their 1982 legislative sessions to adjust revenues and spending. As a result, the actual balances in these states at the end of fiscal year 1982 (which is June 30 in 46 states) may be larger than this survey indicates.[1]

Third, in the past states have generally tended to underestimate their revenue growth, so that surveys such as this one have frequently painted a bleaker picture of state finances than subsequently turned out to have been warranted. This may continue to be the situation in some states.

This past tendency to underestimate revenue is opposed by another consideration which is much more important at this time. Most states did not foresee a national recession when they passed their budgets for fiscal year 1982, so the revenue estimates on which their budgets were based frequently have proven to be too optimistic. Some states had updated their revenue forecasts when they responded to the survey, but many others had not.

In addition, although the recession officially began in July, its severity escalated sharply in the last three months of 1981. Seasonally-adjusted unemployment rates were as follows:

July	7.0%
August	7.2
September	7.5
October	8.0
November	8.4
December	8.9

Most of the states did not have information on tax revenue for November and December at the time when they responded to the survey. Thus, most states are likely to receive less revenue than this report indicates--barring increases of tax rates and user charges.

Evidence to support the view that forecasters may have overestimated revenue is provided by a study published in April, 1981 by the Federation of Tax Administrators.[2] Comparing predicted revenues with actual collections during the last six months of 1980, it found that most states had overestimated revenue. Since that was a period of slow but positive economic growth, it is very plausible that revenue was overestimated for the current fiscal year.

MAJOR RESULTS OF SURVEY

Four indicators can be used to describe the fiscal situation of the states--the growth rates of their spending and revenues, their prospective year-end surplus or deficit, the frequency of shortfalls below anticipated revenues, and changes of state employment levels.

Growth of Revenues and Expenditures

Only 15 states expected to increase revenue at a double digit rate, while 23 states anticipated that spending would rise that fast. Increases of 8 percent or less were reported for revenues in 24 states and spending in 19 states. With the inflation rate approximately 9 percent during fiscal year 1982, many budgets can be characterized as austere. Table 1 shows the increases reported by each state.

In viewing the percentage increases, it is important to consider that 1981 was itself a very depressed year. As reported by the U.S. Census Bureau, state tax revenue in the year ending in June, 1981 rose less than 9 percent.[3] At least 19 states reduced spending during fiscal year 1981 to below the levels appropriated when the budget for the year was first passed.[4]

Table 1

GROWTH RATES OF GENERAL FUND REVENUES AND EXPENDITURES 1981 TO 1982

	Percentage Change in	
	Revenues	Expenditures
NEW ENGLAND		
Connecticut	11.2%	9.6%
Maine	8.9	10.6
Massachusetts	6.7	6.7
New Hampshire	22.0	4.7
Rhode Island	2.8	6.4
Vermont	8.6	12.8
MIDEAST		
Delaware	10.4	6.3
Maryland	8.0	2.5
New Jersey	-4.2	2.9
New York	10.7	10.8
Pennsylvania	4.9	5.9
GREAT LAKES		
Illinois	5.1	3.0
Indiana	7.8	-4.3
Michigan	7.8	11.0
Ohio	6.2	12.9
Wisconsin	10.3	3.9
PLAINS		
Iowa	9.3	9.6
Kansas	8.7	6.2
Minnesota	15.7	31.0
Missouri	8.5	1.7
Nebraska	-4.2	15.4
North Dakota	1.2	22.1
South Dakota	13.9	20.3

	Percentage Change in	
	Revenues	Expenditures
SOUTHEAST		
Alabama	2.4%	7.6%
Arkansas	9.2	12.0
Florida	7.8	9.8
Georgia	11.1	9.0
Kentucky	6.6	6.8
Louisiana	8.9	19.0
Mississippi	6.0	14.5
North Carolina	9.5	8.9
South Carolina	12.2	12.2
Tennessee	8.7	11.6
Virginia	8.5	14.2
West Virginia	18.3	15.3
SOUTHWEST		
Arizona	1.4	9.4
New Mexico	-1.2	8.7
Oklahoma	24.6	30.9
Texas	-1.9	15.2
ROCKY MOUNTAIN		
Colorado	7.2	4.3
Idaho	9.1	8.8
Montana	5.2	22.7
Utah	7.3	14.5
Wyoming	30.6	14.0
FAR WEST		
California	10.6	5.4
Nevada	3.7	- 4.5
Oregon	-1.4	1.7
Washington	16.4	16.3
Alaska	18.4	42.4
Hawaii	-3.6	5.9

Some of the most rapid spending increases in 1982 occur because fiscal 1981 spending was shifted to fiscal 1982. This is, for example, the explanation for Minnesota's high rate of increase. In Minnesota, at least $500 million of spending (for example, for aid to local governments and tax relief) was transferred to the later year.

Balances: Surplus or Deficit

Perhaps the most dramatic indication of fiscal hard times is that no less than 29 states expect to conclude their current fiscal years with year-end balances equal to less than one percent of their annual spending, including twelve states which anticipate deficits. Ten other states forecast balances between 1 and 5 percent of their spending, for a total of 39 states with balances below 5 percent. In the past, a 5 percent balance was generally regarded by states as the minimum which should be held to guard against unforeseen developments and to help tide a state over seasonal periods when revenues lag behind spending levels.

Not all states anticipated small surpluses. Four expected to have balances of 5 to 10 percent, and 7 foresaw balances exceeding 10 percent. The states with the largest surpluses are Kansas, Nevada, New Mexico, North Dakota, Oklahoma, Texas, and Wyoming. Most of these states produce large amounts of oil, natural gas, or coal, which contribute substantially to the state treasury.

Table 2 reports the prospective surpluses for the end of 1982 and compares them to those for 1981. In nearly every case, 1982 surpluses are smaller than in 1981. Only 16 states had deficits or balances below 1 percent in 1981, compared to 29 in 1982.

Table 2

YEAR-END GENERAL FUND BALANCES AS A PERCENTAGE OF GENERAL FUND SPENDING, 1981 and 1982

	1981	1982
NEW ENGLAND		
Connecticut	-2.4%	-3.2%
Maine	4.3	3.4
Massachusetts	.5	- .1
New Hampshire	-11.0	-10.7
Rhode Island	4.1	0
Vermont	-.5	-3.9
MIDEAST		
Delaware	8.2	8.5
Maryland	5.3	5.2
New Jersey	3.8	.4
New York	.1	0
Pennsylvania	1.1	0
GREAT LAKES		
Illinois	2.4	2.0
Indiana	1.3	-.4
Michigan	0	-2.9
Ohio	.2	-5.9
Wisconsin	.7	1.5
PLAINS		
Iowa	1.8	1.5
Kansas	12.1	11.0
Minnesota	-.1	12.9
Missouri	4.9	2.8
Nebraska	8.8	3.4
North Dakota	49.9	22.9
South Dakota	8.9	3.7

	1981	1982
SOUTHEAST		
Alabama	4.1%	1.0%
Arkansas	1.9	0
Florida	.6	-1.1
Georgia	1.8	0
Kentucky	.6	0
Louisiana	14.8	4.2
Mississippi	7.0	.1
North Carolina	4.9	0
South Carolina	0	0
Tennessee	1.9	1.6
Virginia	11.0	2.7
West Virginia	.8	0
SOUTHWEST		
Arizona	8.9	.9
New Mexico	18.6	17.0
Oklahoma	27.1	18.7
Texas	20.0	12.8
ROCKY MOUNTAIN		
Colorado	4.1	.2
Idaho	.4	.8
Montana	23.4	6.2
Utah	5.9	0
Wyoming	30.3	21.1
FAR WEST		
California	1.7	0
Nevada	11.4	14.4
Oregon	.8	-13.5
Washington	.1	-3.8
Alaska	23.5	-9.0
Hawaii	17.0	8.4

Rate of Revenue Inflow

Although most states reported on revenue inflow only through October, that is, before the severity of the recession worsened, 21 states indicated that revenue was below the forecast made when the budget was adopted, while only 10 reported it was above the forecast. The other 19 states replied that their forecast had been accurate thus far.

States with particularly large shortfalls were Kentucky, Nebraska, and Washington, where revenue was 10 percent below the forecast. Alaska, was 9 percent below, and Oregon 8% below. See Table 3.

Change of Employment

Twenty-four states reduced employment during the twelve months preceding the survey, and 18 states increased employment during that period. The other states reported that information was unavailable or that the change was insignificant. It appears as if the prolonged rise in state employment since the end of World War II may have ended in many if not most states.

States where decreases of employment exceeded five percent of the state workforce included Kentucky, Michigan, Tennessee, Utah, and West Virginia. On the other hand employment increased more than 14 percent in Alaska, and more than 5 percent in Florida, Mississippi, New Jersey, and North Dakota.

COMMENTS ON SELECTED INDIVIDUAL STATES

Two of the states with the largest impending deficits in late 1981 were Washington and Minnesota. Washington, hurt by a slumping lumber industry and layoffs in aerospace, took a major step toward balancing its budget by raising its sales tax from 4 1/2¢ to 5 1/2¢ in early December, increasing revenue $520 by the end of its biennium in 1983. Meeting in special session, the Washington legislature also trimmed the biennial budget by $284 million, a 4

Table 3

ACTUAL COLLECTIONS COMPARED TO REVENUE FORECAST SINCE BEGINNING OF FISCAL YEAR

	Collections vs. Forecast	Period
NEW ENGLAND		
Connecticut	0.6% Below	3 mos.
Maine	4.8% Above	3 mos.
Massachusetts	On Target	3 mos.
New Hampshire	On Target	4 mos.
Rhode Island	On Target	5 mos.
Vermont	4.0% Below	4 mos.
MIDEAST		
Delaware	On Target	2 mos.
Maryland	3.0% Above	2 mos.
New Jersey	On Target	3 mos.
New York	1.3% Above	6 mos.
Pennsylvania	4.1% Below	3 mos.
GREAT LAKES		
Illinois	1.0% Below	4 mos.
Indiana	On Target	5 mos.
Michigan	4.1% Below	3 mos.
Ohio	3.7% Below	5 mos.
Wisconsin	On Target	3 mos.
PLAINS		
Iowa	On Target	5 mos.
Kansas	.9% Below	5 mos.
Minnesota	7.7% Below	3 mos.
Missouri	3.0% Below	4 mos.
Nebraska	10.0% Below	4 mos.
North Dakota	Above	3 mos.
South Dakota	2.6% Below	4 mos.

	Collections vs. Forecast	Period
SOUTHEAST		
Alabama	On Target	2 mos.
Arkansas	1.7% Above	4 mos.
Florida	2.0% Below	4 mos.
Georgia	On Target	4 mos.
Kentucky	10.0% Below	4 mos.
Louisiana	1.5% Above	5 mos.
Mississippi	On Target	5 mos.
North Carolina	On Target	4 mos.
South Carolina	6.0% Below	4 mos.
Tennessee	On Target	4 mos.
Virginia	0.5% Below	4 mos.
West Virginia	1.9% Below	4 mos.
SOUTHWEST		
Arizona	On Target	4 mos.
New Mexico	On Target	6 mos.
Oklahoma	7.0% Below	6 mos.
Texas	Above	3 mos.
ROCKY MOUNTAIN		
Colorado	On Target	3 mos.
Idaho	3.0% Above	4 mos.
Montana	Above	3 mos.
Utah	On Target	4 mos.
Wyoming	On Target	4 mos.
FAR WEST		
California	1.0% Below	4 mos.
Nevada	On Target	5 mos.
Oregon	8.3% Below	6 mos.
Washington	10.0% Below	4 mos.
Alaska	9.0% Below	3 mos.
Hawaii	5.0% Above	2 mos.

percent reduction. In January, Governor Spellman said that the budget was still more than $144 million out of balance and called for further tax increases and budget cuts.

In early January the Minnesota legislature enacted without the Governor's signature a budget balancing bill which raised revenues $225 million and cut expenditures more than $500 million over its biennium. A 7 percent income tax surcharge was included in this package of measures.

Ohio was the third state (along with Minnesota and Washington) to raise its sales tax, hiking it 1.1¢ in October. Ohio also significantly broadened its sales tax by applying it, for example, to repair services and cigarettes. (Two other states--West Virginia and Nevada--also raised sales taxes in 1981, but these increases were part of tax reform packages which involved large offsetting tax decreases.) Despite these actions in January, it was announced that Ohio faces a $1 billion deficit at the end of fiscal year 1983.

Oregon, Michigan, and Kentucky are probably the other most fiscally troubled states at this time. Oregon did not pass its budget until the end of July, a month after the fiscal year had begun; it cut spending and raised revenues by $166 million over the 1981-83 biennium. With the timber industry continuing in the doldrums, Oregon's legislature returned for a special session in January to cope with a deficit exceeding $200 million.

Michigan's state government has suffered along with that state's major industry. Unlike the four states discussed above, Michigan eschewed tax increases and handled its budget problems by cutting spending, resorting to accounting changes, and borrowing from various earmarked funds. In the first three months of its 1982 fiscal year, more than $300 million was cut from the budget in response to disappointing revenue growth and a large increase in social service caseloads, which raised state spending more than $100 million.

Kentucky's economy is another one heavily dependent on durable goods and autos, two depressed industries. Although its legislature did not meet during all of 1981, the state experienced considerable retrenchment, with state employment dropping 7 percent in the year ending in November, 1981. Only Michigan's employment decreased that much.

Two other fiscally distressed states were California and Massachusetts, both of which felt the crushing burden of trying to aid local governments which had lost much of their major revenue source (the property tax) as aresult of taxpayer initiatives. California was also impacted by income tax indexation, which held the growth of income tax revenue to below 2 percent in fiscal 1981. Both of these states anticipated little if any balance at the end of fiscal 1982. In November, 1981, Governor Brown cut the budget for state operations by 2 percent.

Several states have seen the comfortable balances which they enjoyed in the past shrink drastically or disappear. Colorado, after bestowing substantial income and sales tax relief on its citizens each year since 1979, anticipates virtually no surplus at the end of the current fiscal year. In December, Governor Lamm ordered a 1 percent reduction of the state budget. Virginia and Florida also expect to see their year-end balances shrink dramatically. No turnaround is more impressive than Alaska's, where the budget is reportedly swinging from a $1 billion surplus in 1981 to a $500 million deficit in 1982. Oil revenue is considerably less than anticipated and capital spending has soared. Despite its deficit, Alaska's fiscal problems are the sort that most states would envy. Spending in 1982 is scheduled to increase more than 40 percent. Alaska is also setting $1 billion aside this year in a trust fund for use in future years.

At the other extreme from these states only recently added to the list of those with serious budget problems is New Hampshire. The only state, aside for Alaska, with neither an income nor a sales tax, New Hampshire had a deficit in fiscal 1981 and seems headed for another in fiscal 1982. It did raise corporation and other taxes $45.6 million at a special session last year, but its budget may still be in the red.

Another New England state with a persistent deficit is Connecticut. In January, 1982 a tax package raising revenue more than $30 million left the state with a deficit still in excess of $50 million.

The states with large surpluses are generally the same ones as had large balances in earlier years. Even in many of these states the year-end balance is expected to be smaller than previously. North Dakota has the largest surplus in relation to its spending, but biennial revenue estimates were reduced more than $100 million in October due to lower oil prices and shortfalls of production. Spending for state operations was cut 5 percent as a result.

In several of these surplus states, such as New Mexico, North Dakota and Montana, an important reason for the smaller year-end balance is tax relief provided in 1981.

REGIONAL PATTERNS

Fiscal stress can be found in all parts of the country, but New England, the Great Lakes states, and the Southeast seem to be in the worst shape. It is significant that even Sunbelt states are generally facing very tight budgets, except for those with large oil and gas industries. The Southwest is the only region where the majority of states are fiscally comfortable.

FINAL COMMENTS

This survey provides a background for understanding the fiscal actions in the states over the next few months. States will be wrestling not only with their 1982 budgets but also with budgets for 1983. Some indications of what may lie ahead can be gleaned from those states with expecially severe problems which have already taken action to reduce spending or increase revenues or both. As noted, since October, Ohio and Washington have raised sales tax rates, and Minnesota has increased its income tax. All of those states as well as California, Florida, Colorado, and Michigan have reduced spending below levels originally appropriated for the current fiscal year. Significantly, cuts are not indiscriminate; for example, three states reported that their corrections systems had been spared reductions. Another common reaction is to defer capital construction projects.

The dismal fiscal situation of the majority of states results from the national economic malaise. A recession implies slow growth of personal income, which leads directly to slow growth of tax revenue and increased demand for social services. The cutbacks of federal aid are not the primary cause of state fiscal distress, but they exacerbate it. In fact, those cutbacks could hardly have come at a worse time in view of the anemic state of state budgets.

FOOTNOTES

1. Forty-six states have fiscal years ending June 30. The exception are New York (March 31), Texas (August 31), and Michigan and Alabama (September 30).

2. Steven D. Gold, The Fiscal Condition of the States in Mid-1981 (NCSL, August, 1981).

3. Federation of Tax Administrators, The Impact of the Economy on State Tax Revenues July 1, 1980 to December 31, 1980. (Research memorandum 519, April 1981).

4. U.S. Census Bureau, Quarterly Summary of State and Local Tax Revenue: April-June, 1981. For a discussion of this report, see Steven Gold, "The Growth of State Tax Revenue" (NCSL, November, 1981).

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STATEMENT ON REVENUE TURNBACKS
DECEMBER 9, 1981

The Constitution of the United States created a federal system of government in which certain specific powers were granted to the national government and all others reserved to the several states. Over time, however, the national government has become involved in most areas of public service. This intrusion in matters of state prerogative occurs for a variety of reasons, not the least of which is the superior revenue raising capacity of the federal government, due in large part to the graduated income tax and the national government's ability to deficit spend.

While society was becoming more complex and increasing the demands on state government, the national government increasingly was able to provide resources to fill the gap left by the hard pressed state tax structures. However, with these funds came strings, the conditions placed on states for the receipt of these funds, and eventually outright preemption in some areas reserved to the states by the Constitution.

Two mechanisms have been employed during the last 12 years to stem this tide of federal government control while yet providing needed financial assistance. Five block grants were created during the late sixties and early seventies, and general revenue sharing was adopted in 1972. However, the block grants were increasingly restricted, year by year, revenue sharing and the block grants were the slowest growing categories of federal assistance, and the state share of revenue sharing, which in 1980 was made subject to the annual appropriations process, has never been funded since.

Thus, the National Conference of State Legislatures believes that the only viable approach where revenues now in the hands of the federal government would be used to support state efforts, is to identify a certain portion of federal taxes as state funds and not subject them to the federal appropriations process. This action should then be combined with a turnback of specific responsibilities to the states.

Program responsibilities should be returned first in the areas that most clearly are the province of state government, such as education and state and local transportation. Conversely, program areas such as income security where a predominant federal role seems appropriate, would seem to be the least likely candidates for revenue turnback proposals. Responsibilities should be returned as completely as possible in one area at a time, avoiding the shifting of small portions of responsibilities in a wide range of program areas.

We favor revenue turnbacks which are:

o commensurate with the cost, growth and characteristics of the programs appropriately returned to the states. While program savings will be realized through the consolidation and more efficient targeting of funds by a single level of government, the size of the turnback must provide a realistic match with the cost of the programs. It would be preferable if its growth rate approximated the rate of inflation of program costs. The tax itself, should either be related to the responsibilities returned, as the federal motor fuel excise tax is for highway programs, or be a general tax, like the income tax.

o a guaranteed source so that states could rely on its continuation. The revenues turned back could be placed in a trust fund or made an entitlement: they must be freed from the annual appropriations process.

o free of federal constraints so that states will have full discretion in allocating them among their own priorities. This flexibility guarantees the greatest possible administrative savings and insures the states' primary role in the service area turned back.

o structured so as to contain a fiscal safeguard provision to avoid a drastic and inequitable fund loss to any state in comparison to overall changes in program funding or current federal fiscal assistance.

o collected by the federal government at least throughout any transition period, to insure constant funding and effective program planning. Eventual collection responsibilities will be determined by the revenues earmarked for return to insure that states have the opportunity to realize the increase in resources.

FY 1983 federal budget actions should insure that any further reduction in federal aid or transfers of progam responsibilities are accompanied by a revenue turnback and/or a commensurate relaxation of requirements or mandates on the states. States have reached the limit in their ability to absorb pure cuts in federal aid. In addition, any turnback proposal which would have the states take over taxes formerly levied by the federal government should be framed in a way to make it clear to the public that the turnback represents a shift in tax responsibilities, not an increase or decrease in tax burden.

The NCSL strongly supports the idea that the federal government include one or more specific revenue turnbacks as part of the FY 1983 federal budget. Acceptable proposals include the turnback of the federal motor fuel excise tax for state and local highway program responsibilities, or a turnback which would include a portion of the federal income tax for certain specific program responsibilities.

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STATES AND THE FY 1983 FEDERAL BUDGET
NCSL POLICY
ADOPTED DECEMBER 11, 1981

NCSL supports presidential and congressional efforts to restrain inflation, increase productivity, reduce unemployment and strengthen the economy, and will cooperate with the Federal government to achieve these objectives. NCSL recognizes that fiscal prudence in the development of the FY 1983 budget is necessary in this overall strategy. NCSL notes that state and local governments have already taken significant funding reductions in the Federal government's efforts to control spending. States can only support funding policies which are commensurate with a relaxation of requirements and mandates on the states or revenue turnbacks. The following recommendations suggest criteria to minimize the adverse effect of cuts on state and local governments and on individuals of true need dependent upon government for their livelihood. The extent to which these policies are reflected in the President's budget would determine the level of support which NCSL can commit to the President's proposals.

1. Efficiency should be increased across all federal programs including a closer review of discretionary funds, a review of end-of-year agency spending and a reduction in the percentage of program funds consumed by Washington consultants; and by reducing the number of smaller grants (in 1980, 303 grants totalled $30 million or less each) by elimination or consolidation into block grants with simplified administration and greater flexibility.

2. NCSL urges the Administration and Congress to engage in serious discussions with elected state and local officials to "sort out" responsibilities among levels of governments. The current federal system is characterized by an overlap of federal, state and local government programs creating inefficiency and waste. There is a need to decongest our federal system by defining national policy objectives and placing their responsibility in the hands of the appropriate level of government. There are legitimate functions of the Federal government. These appear to include the primary responsibilities for our national defense, income security and a sound economy. Individually, state and local governments cannot control our national economy and therefore cannot fully control certain program costs that fluctuate with it. Programs needed to safeguard the economic condition of our nation and its citizens should be the primary responsibility of the federal government; including: employment programs, anti-poverty programs (including Medicaid); and income security programs. On the other hand, state and local governments appear to have primary responsibilities in areas including education, transportation, law enforcement, libraries and fire protection.

3. Pending final "sorting out" of state and federal responsibilities as described above, NCSL asks that Congress allow individual states to participate in a demonstration program under which individual states, in lieu of participating in dozens of restrictive categorical and other federal programs, could receive approximately the same level of federal funding on a permanent basis in the form of a single block grant which the states would be able to use with the maximum of flexibility to

accomplish those purposes most appropriately financed with federal funds (e.g. income maintenance, employment programs, medical assistance, etc.).

4. NCSL joins with the Administration in its resolve to continue to fulfill the obligations that spring from our national conscience. Those, who through no fault of their own, must depend on the rest of us--the children, the poverty striken, the disabled, the elderly, all those with true need--should be assured that the programs they depend on are exempt from federal cuts.

5. NCSL notes that increases in military spending offset to a large extent the economic goals of curtailed domestic program spending. Serious efforts should be made to control military spending in any way which would not compromise our national security.

6. For any recommended program and/or budget change that would significantly impact the operation and delivery of services at the state level, certain criteria must be met:

   - States must have sufficient lead time and flexibility to adjust their own laws and programs to the changes.
   - Program funding reductions must be accompanied simultaneously with legislation or regulations granting states the flexibility needed to begin administrative improvements.
   - Where federal funds are eliminated, any federal requirement for states to continue those services should be removed.
   - The end result must be a savings to taxpayers. Transferring program costs from one level of government to another is no solution to the problem.

7. NCSL can support presidential and congressional efforts for tax policy changes which induce an orderly recovery from the current recession and promote economic growth without inflation. NCSL cannot support revenue increasing measures solely designed to bring the federal budget into balance if these measures usurp the tax bases and/or taxing authorities of the states. In consideration of any tax policy changes NCSL urges the examination of tax expenditures for more efficient distributrion of benefits and attainment of national goals.

8. The impact of federal policies on state and local governments should be determined and given full consideration before these policies are adopted. The Office of Management and Budget should prepare an analysis of the fiscal effect of any proposed federal action on state and local governments. In addition, the Congressional Budget Office should review the cost of implementing any legislation reported by a congressional committee and assess the costs to state and local governments. Where there are substantial costs due to the enactment of regulations and mandates on the state the federal government should provide the funding

to carry them out.

9. The General Accounting Office has interpreted the Congressional Budget Act to state that deferrals and rescissions made to budget authority levels apply to the actual expenditure of funds under obligations or legal contract amounts already agreed to. This interpretation can result in funds planned on by state and local governments under agreements with the federal government being cut off before funds are actually paid back to the states. NCSL urges that the federal government protect legal agreements from deferrals and rescissions.

10. NCSL commends the Administration's past efforts in communicating with the states and asks that these efforts continue.

11. SPECIFIC PROGRAM RECOMMENDATIONS:

    a. General revenue sharing is preferable to the categorical system as a means of federal assistance. This program should be funded at the state and local levels to demonstrate a commitment to efficient government. Past use of these funds as well as the flexibility and low administrative costs of the program argue for its continuation. The target of fiscal restraint efforts should be the maze of nearly 500 overlapping categorical grants.

    b. Any block grants or consolidated programs proposed by the Administration or Congress in FY 1983 should allow maximum flexibility for the development of options and innovations by the legislatures of the states. NCSL asks that those block grants already enacted be reexamined, and the restrictions that still remain them eliminated.

    c. NCSL urges the Administration and Congress to examine the current met of indexing programs using the Consumer Price Index and to develop a method that is both fair and cost effective for maintaining "cost of living" increases.

    d. There are approximately 60 regulations that cross agency lines, from procedural instructions (dealing with such subjects as accounting and auditing) to social and economic ones (dealing with such subjects as barriers to handicapped, discrimination in employment and environmental safeguards). In some cases separate agency regulations promulgated to administer these cross-cutting requirements are often vague and subject to broad interpretation without explanation as to their applicability to various program requirements. In other circumstances they are very specific, describing in detail how states should carry out the requirements. There is a need to eliminate or at least simplify and reduce the inconsistencies that occur in administering these cross-cutting requirements.

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NCSL EXECUTIVE COMMITTEE STATEMENT ON A FEDERALISM INITIATIVE

February 21, 1982

NCSL reiterates its statement on the FY 1983 federal budget adopted on December 11, 1981, and, in light of the new developments, the NCSL welcomes the steps taken by President Reagan for a new federalism initiative by the exchange and devolution of programs along with the revenue sources to pay for them. This concept has been a concern and position of this organization for many years.

We recognize the concerns and cooperation of the Reagan Administration to meet and continue consultations with NCSL for a workable program to implement these concepts over the coming years.

NCSL has long advocated a clear division of state and federal responsibilities toward the states assumption of the primary responsibility for programs in education, transportation, law enforcement and other areas, with the federal government assuming the primary responsibility for Medicaid and income security and related food stamp programs.

We acknowledge the President's bold step in proposing the federalization of Medicaid and we strongly urge the President to additionally propose the federalization of income maintenance and food stamp programs.

Through cooperation and coordination between the federal government and the states, we believe a new era in government in this nation can be accomplished. While the complete procedure for implementation and financing remains to be developed, NCSL encourages the effort and offers its fullest cooperation. NCSL further believes that, to make the President's initiative a real one, elected officials from the federal, state and local levels of government should sit down together to work out a plan that is fair and rational.

Chairman **Domenici**. Let me ask a question about your association. Is it made up of State legislatures of every State?

Mr. **Kiser**. I believe most all the States, there might be a couple that have not paid their dues, but I think we have three or four, at the most, that would be in that category. They may not be paying their dues because they had so many cuts last year, they could not pay their dues.

Chairman **Domenici**. I hope you were not using our money to pay dues.

I yield to Senator Exon.

Senator **Exon**. Thank you very much, Mr. Chairman.

I want to join the chairman in welcoming two very distinguished former associates of mine, Governor Snelling and Governor Matheson. We welcome you here, and I think the input that we get from you and members of the legislature, as Representative Kiser, are tremendously important to us as we try to work our way through the suggestions that have been made.

I noted, Representative Kiser, that you indicated that we should set some adjournment date, and basically I suspect that there is some merit to that suggestion. I would only suggest, though, that quite often one's perspective varies from time to time.

When I was Governor, I thought it was better if the people were safer if the legislature never, never met at all, let alone adjourn early. Now since I am a member of the other body, the legislative body, my perspective has changed.

NEW FEDERALISM NOT A NEW PROGRAM

Let me just cite to you, as well as to everybody else, I understand the most difficult situation that State and local government, the difficulties that they are going through these particular days. I happen to know that in my own State of Nebraska, right now, the legislature and the Governor are faced with some monumental decisions with regard to reduced income, with regard to skyrocketing expenditures. They had a special session of the legislature called by the Governor, late last year, to make reductions in expenditures.

The Governor came forth with his budget recommendations, and they were about ready to pass those, and now they are in a situation where not only are they going to have to decrease expenditures further, but they are going to have to raise taxes simultaneously. So I think the situation in Nebraska is no different than what is happening to one degree or another in all of the States.

Therefore, I would suggest that New Federalism is not a new program. For the years that I was Governor, we talked about this very basic plan. I think the President has done a good job, in at least outlining what he thinks New Federalism should be, which is an old, old concept. It is an old, old concept, though, and it could be very old indeed for the State and local entities of government, unless some of the transfers are made.

I would hope that we would get off of the idea that through some magic, New Federalism is going to solve all of the financial problems of not only the Federal Government but the State and local governments, and I fear, frankly, despite the charts that I see from time to time, that in essence, unless we work out these problems very carefully, that we might simply transfer the financial difficulties that we recognize we are in with looming deficits at the Federal level to the State and local entities of government.

MOST LOCAL GOVERNMENTS RAISING TAXES

Basically, most of the local entities of government, the cities and counties in Nebraska today are raising taxes. The State government is going to have to raise taxes, that is one of the shortcomings, as I see it, of us here at the Federal level trying to do all of these things with mirrors, by cutting taxes, at the same time that the expenditures are recommended to further increase.

I did not have a chance to be here, unfortunately, to hear your opening statements, but is my assessment of the dire circumstances that State and local governments find themselves in accurate?

Second, short synopsis from each of you, if you will, how do you feel you are getting along with your present negotiations with the administration toward what I understand would be some fine tuning, or major changes in the original proposal by the administration known as New Federalism?

Governor SNELLING. Senator, those are all very meaty questions.

STATES FARE DIFFERENTLY

First, the States are faring quite differently, economic circumstances driven by the current recession, high interest rates, problems in the automobile industry, problems in the construction industry, have their outfall in every State, to be sure. But still there are some States whose economies are doing pretty well, for whom revenues are still very strong, particularly the States with strong natural resources, energy expansion, and the like.

There are other States which are in very serious trouble. Of course, the problem, if you have a State with high unemployment, or with an elderly population, and the economy which feeds the State revenues falls, is that you have bigger problems and less revenue.

So you are absolutely right, there are a lot of States that are suffering, but it is important to note that differential, because it makes a big difference as we get to the next subject.

FEDERALISM NO WAY TO SAVE MONEY

Second, Senator, I do not know of anyone who has advocated federalism as a cost saving or a financial problem avoidance mechanism. The President has specifically stipulated that his proposals for federalism ought to be so managed that there were no budgetary implications in the terms of either saving the Congress money, or saving State moneys.

As you know, when you were Governor, we have not advocated federalism as a way to save money. It is true that we have always believed that you could do more for less, much more importantly, that you could do it better if the decision as to what were prioritized, and the accountability were judged at the local level.

We never maintained, we never believed that you could do it 40 percent better, which is unfortunately the implication of 40 percent budget cuts, together with talk about federalism.

Senator, if we are going to get to it, however, I really do think we have to come to an agreement that current problems with the system cannot be used as a reason for not addressing those problems.

When we come to the Senate and the House, we are told often by your colleagues, that things are too serious for the Congress to get to the problem of federalism.

Senator, they are going to get a lot more serious if we do not start relieving you folks of some of the problems that you have. You are never going to come home in September, or for that matter, December, if you keep trying to decide everything about potholes and Afghanistan, in the same city. We would like very much to get to the fundamental philosophy of federalism, which is, we believe, that the legislatures and the city councils of this country, and the county commissioners are perfectly prepared to deal with a very large range of problems, which unfortunately have been sapping the energy and vitality of the U.S. Congress.

GOVERNMENT INVOLVED IN EVERYTHING

Mr. **Kiser**. Senator, I would like to comment on that, also.

I like to use the illustration that if 30, 40 years ago you went to a high school civics class and asked them to outline what the Federal Government's responsibilities are, and the States' responsibilities, and local government, just about everybody could have sat down at a table and outlined one, two, three, four, of those levels. Today you cannot do that. There is not an element that the Federal Government is not involved in. They are into everything, and they should not be there, and this sorting out process is long overdue, regardless of the fiscal implications, that sorting out process should take place, and it has to start now.

We are talking about spending taxpayers' dollars, whether it is taxpayers' dollars at the Federal level or at the local level. Those programs that affect the whole area should be run at that level. The taxpayers have a right to have that money spent at the local level where they can see it operate, where economies of scale can be operated, and the various programmatic changes can be made, to make sure that the program is streamlined and it addresses the problems that they have.

For this Congress to have adopted 500 plus categorical problems of national problems, I just do not think can be justified.

Senator **Exon**. I think you are beating a dead horse, frankly.

Mr. **Kiser**. Senator, I would like to be, because that is how strongly we feel about it.

Senator **Exon**. I agree with you, and I have been through all of those things. There is not any question in my mind that when we come to generally the welfare programs, not the State level, but the local levels of government throughout the United States, could do a much better and more efficient job of meeting the needs of the most needy, than can laws passed and carried out by bureaucrats here at the Washington level.

So I think, I do not know of anybody in the Congress that basically disagrees with that. What are you telling us then? Are you saying, Representative Kiser, that you feel that the presentations made by the administration regarding New Federalism then should be endorsed? Is that what you are saying?

Mr. KISER. We are saying that the general direction that the President has taken, the concept of——

Senator EXON. I am not talking about the general direction. I am talking about the specific directions.

Are you prepared, in Florida, are you prepared in Florida to take over the food stamp program?

CHANGES MUST BE MADE

Mr. KISER. Yes, sir, we are willing, first of all, we never said adopt it right down the line, that is not the Congress job, it is to still sort that and make the changes where they feel the changes ought to be made. We have tried to outline various concerns about that, if those changes are made, yes, we are prepared to move forward in this area, and to take our responsibility under the New Federalism approach, even if it means we may have to raise taxes to do it. We have to make some of these changes, but hopefully with the type of changes that are made we will be able to adopt those changes, and with the administration's savings that we think we can do at the State level, it would not be so bad, but we have to have the transition period, more advance planning, these are things we pointed out in our testimony, the changes in the approach that is laid out.

Senator EXON. What you are telling me, Representative Kiser, then is if I interpret your remarks correctly, that as far as the State of Florida is concerned, at least, and the group of State legislatures that you represent, that you are indeed prepared to raise the sales tax, raise income taxes, and raise real estate taxes at the local level, if that is what it takes to make the program work?

Mr. KISER. Senator, please do not try to put words in my mouth.

Senator EXON. I am not trying to put words in your mouth. I am trying to get some information out of you with regard to specifics, rather than what we traditionally hear up here, what we should do. I am not trying to put words in your mouth, but I reserve the right to ask questions. That is why I am here.

Mr. KISER. OK, let me defer to Governor Snelling for 1 minute, and when he finishes, if there are some aspects that he does not answer, I will refer to it.

Governor SNELLING. You asked about the details at the White House. The Governors agreed with a majority of 80 percent to a specific decision, which I will detail for you.

The essentials of that position have been endorsed by the National Association of State Legislatures, by the counties, by the League of Cities, and by the other groups which represent the mayors of the United States. One essential on which we all agree is that AFDC and food stamps ought not to go to the States.

LET U.S. GOVERNMENT UNDERTAKE MEDICAID RESPONSIBILITIES

We all agree that under the right circumstances it would be a good thing if medicaid responsibilities were to be undertaken by the Federal Government.

Now, the essential points of negotiation at the present time as regards the Governors, in the White House, are these: We favor, on our part, the offsetting of the Federal assumption of medicaid, which would cost the Federal Government something like between $16 and $19 billion more depending on the precise element of that package which are being written right now. All agree that that ought not to incur an additional burden to the Federal Government, so the question is which funds, that go from the Federal Government to the States to assist them in some 100-plus categorical grant programs, ought to be paired with the assumption of medicaid, so that there is not net increase in either Federal burden or State burden.

We are now making those lists. The point of disagreement between the White House and the Governors is that while we do not believe that the offset for medicaid should be AFDC and food stamps, we agree with the principle that there must be a financial exchange.

NOT LOOKING FOR SHORT-TERM SOLUTION

Point No. 2 of negotiation, the Governors feel strongly, and I think on this we are joined by the representatives of the non-Federal Government, is that we are not looking for a short-term solution to the problem. Our forefathers wrote a system that lasted 200 years. We are not looking for a solution that will go to 1991. We are looking for something which deserves to stand, and for that reason we need to know how these burdens will be borne in the years past 1991.

There, the essential question is, what is the fair element of responsibility by the Federal Government, which deals with the diversity of capacity among the States. The Governors have proposed a more permanent trust fund than has the President, the Governors have some feelings that it ought not to end with a so-called devolvement of excise taxes, and a so-called right of the States to pick up those sources of revenue, because that would be so different in value throughout the country.

I would just summarize by saying I think that the negotiations are going very well, that does not mean that we have agreed. It means that the grounds for agreement have been laid. I believe that before, or on or about April 1, there is a high probability that the White House and a very large number of non-Federal implementors of social programs and public policy will have agreed on a program to begin an orderly transfer of responsibilities to States, counties, and local governments, which makes sense in terms of what each of those units of government can best be held responsible for accomplishing. April 1 is a date which I understand the President feels would be appropriate to send legislation on this subject to the Hill.

Senator EXON. Thank you.

Governor Matheson?

Governor **Matheson**. Just a postscript, Senator.

I concur in the excellent presentation by my colleague, Governor Snelling, on the position that the Governors have taken on the New Federalism. But you made a couple of points earlier which I think are critical in terms of moving into that process, and that is what happens to us in the fiscal year 1983.

You were talking about the idea of transferring the responsibility down, and the States finding some way to pick that up economically. That is not the federalism which we speak of. We are basically addressing this from a balancing of the Federal system. We are not addressing it as balancing the Federal budget, and the "shift and the shaft" theory is not something which we subscribe to.

Senator **Exon**. I did not think you did. That would be very out of character for Governors past, present, and I suppose future.

SUCCESS OF FEDERALISM CRITICAL IN 1983

Governor **Matheson**. Finally, I think that the level funding of 1983 dollars in the programs that were cut in 1982, which is what the Governors have proposed, is a critical part of the success of federalism, if it goes into effect in 1984, because that would become the base on which this massive tradeoff would occur, and we would have to go in with that amount of money, and if we take another shot this year, like we did last year, I am not sure that we will be strong enough to join the administration and the Congress at the bargaining table in the 1984 year, to talk about this New Federalism.

So 1983 is a critical year for us as well in the federalism picture.

Governor **Snelling**. Can I add one word?

Senator **Exon**. Certainly, Governor.

Governor **Snelling**. On behalf of a general proposition of your chairman, no one should believe that adequate budgets in 1983 for State and local government are a serious part of the problem of balancing or reducing the Federal deficit.

The difference between a 10-percent cut, or not a 10-percent cut, on the 10 percent of the budget, which goes to State and local governments, is a matter of small consequence to the total national budget. The order of magnitude is between 1 and 2 percent.

Clearly, the immense problems of the deficits are essentially in other areas. We have never indicated a desire to shield ourselves from these problems. Our offer to accept level funding for a bunch of years, in the face of inflation, clearly makes us a part of the solution, and our offer part of the solution, and not a part of the problem.

Senator **Exon**. If I understood you right, Governor Snelling, you indicated that the two specific programs, aid to dependent children and food stamps were not programs that you felt should be transferred to the States, or were?

INCOME MAINTENANCE PROGRAMS

Governor **Snelling**. They are not. The Governors feel generally, as do most, if not all of the non-Federal governmental units, that the essential direction of transfer should be that income maintenance programs should become more, rather than less a Federal responsibility.

We believe the President has compromised to a very considerable degree in offering to accept responsibility for medicaid, the most expensive of these programs, the one which is hardest to control. We believe that we ought to offer an alternative to his proposals which would offset that responsibility, but not with food stamps and ADFC. We are not in favor of that part of his proposal.

Senator **Exon**. One last question, and one last statement.

I think you both well understand that I have been always supportive of the efforts of the Governors, because the Governor of the States know far more of the problems in their State than any of us up here, even those of us who had the great opportunity to serve as Governors of our States. So I want to be helpful and supportive, and I think that we here, though, are in a great state of confusion today on what are the specifics in how we work this out.

My question then comes to something that I brought up when we had a meeting with both of you, which both of you attended a couple of weeks, on the Senate side, with regard to the cooperation of the mayors on this program, and I suggested at that time, I would hope that the Governors and the mayors would be able to come to support some kind of unified plan.

The chairman of the mayors' conference was in my office yesterday, and I took it from her, that although I did not ask her the specific question as to whether or not they had gotten together with the Governors, she indicated grave reservations on the part, on behalf of the mayors, as to the way things were going.

STATUS OF NEGOTIATIONS WITH MAYORS

Have you been successful in getting together with the mayors? What is the status of those negotiations, or lack thereof?

Governor **Snelling**. It is like trying to find unanimity in the U.S. Congress.

Senator **Exon**. It is not that bad.

Governor **Snelling**. Yes, it is, Senator. You have to settle, I guess, for consensus, something better than a majority, and you cannot expect everyone who has, after all, different constituents, slightly different jobs, to have identical points of view. But we have come a long way.

I would like to leave with you a statement of principles adopted by the coalition which includes each of the groups that represented the mayors, the counties, the State legislatures, and the Governors on December 16.[1] I think you will find it to be a general agreement, but, one which includes an enormous number of specifics which will be important to you.

Now, we met yesterday, and the mayor to whom you refer, I suspect was a part of the group, and we drafted a resolution which was adopted by at least a 90-percent vote, which again is very specific in its general support of the proposal of the President, with the exceptions, some of which I have referred to already.

Now, I understand that some of the representatives of the mayors and other units of government are going to be testifying next, but I would hope, sir, that the potential for disagreement about the exact responsibilities of Governors and State legislatures as compared to county officials and mayors would not deflect the U.S. Congress from its fundamental concern for these areas of federalism of which you have long been a supporter.

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[1] See p. 271.

The States are not prepared to abandon their constitutions any more than the Senators and Congressmen are, and we do have an obligation back home to see that each city is treated fairly, that there is justice between urban areas and rural areas. And when we fail, there is a remedy, there is a remedy at law and in politics, and so we must be given some responsibility for those areas which are assigned to us by our several constitutions.

STATEMENT ON THE FY 1983 BUDGET AND FEDERALISM PROPOSALS

A. The FY 1983 Budget

The nation enters 1982 facing severe financial problems. In 1981 federal aid to states and local governments was sharply reduced, affecting us directly and reducing our ability to provide needed assistance; high interest rates raised borrowing costs, forcing many to defer going to the market altogether; the national recession, which began in the late summer of 1981 and continues today, added to unemployment rolls and further reduced revenues; and finally, these problems became more severe at a time of growing agreement that our public infrastructure of roads, bridges, transit facilities, and water and sewerage works was in rapid decline, and too much of our human capital is unprepared to enter the job market, jeopardizing the national economic revitalization effort. There are also major housing concerns throughout the nation that affect economic revitalization and that must be addressed.

1. We support level funding at FY 1982 levels for discretionary programs, and equity in needs tested programs in FY 1983. FY 1983 funding levels must protect the capacity of state and local governments to assume the new responsibilities of the federalism proposals.
2. We support the President's decision not to further pre-empt our state and local excise tax sources and to hold harmless general revenue sharing, community development block grants, UDAG, transit capital grants and wastewater treatment funding in the FY 1983 budget. We view a tax on gasoline and diesel fuel as a user charge rather than an excise tax, and we take no position on such a user charge.

B. Federalism Proposals

We reaffirm our support for the Coalition's "Guidelines for Strengthening the Federal System." We appreciate the extensive consultation that the Administration has undertaken with us before transmitting its federalism proposal to Congress. The Administration is to be commended for recognizing some of our guidelines in its federalism proposal, including:

1. lead time to assure stability and quality in the delivery of partnership programs;
2. respect for each level of government's laws and responsibilities without preemption;
3. sorting out of responsibilities beginning with federal assumption of Medicaid; and
4. revenue turnbacks that are commensurate with the cost of programs returned, guaranteed, and structured to avoid drastic and inequitable fund loss to individual governments.

In addition to these guidelines for strengthening the federal system, the Coalition supports the following federalism principles:

1. Income Security: We continue to believe that income security should be primarily a responsibility of the federal government. We support the federal assumption of Medicaid and will continue to discuss other income security programs.
2. Program Turnbacks: We support the turnback of program responsibility to state and local governments, together with the necessary resources, where clear national purposes are not compromised. The Coalition will submit the individual programs that should be included -- a turnback package.
3. Trust Fund: We support a funding mechanism that is commensurate with the program responsibilities returned. The trust fund should be ongoing and should be funded in a manner sufficient to meet the total program requirements, allowing for inflation, and should be adjusted to address the relative fiscal capacity of state and local governments to provide necessary services.

4. State Pass-Through Provisions: (Preliminary Statement) We support pass-through provisions that provides for:
    a. full and direct pass-through for programs that are now wholly locally run, such as revenue sharing and the entitlement portion of community development block grants;
    b. pass-through of funding on other turnback programs according to the percentage of funds made available to localities based on the current practices in each state at the time of the turnback;
    c. consultation procedures with local governments that build upon the existing cooperative decision-making relationships within each state; and
    d. state provision for adjustment of pass-through percentages when functional and program responsibilities shift between the local and state levels of government.

We reiterate our united stand on the FY 1983 budget and on the essential principles for partnership federalism. We will continue our consultations on the specific programs to be included in the turnback package, on other income security options, and on the long-term financing of the trust fund.

We strongly urge Congress to consult with us on consideration of federalism proposals. We believe that the American public is calling on all elected officials to provide better public services at a lower cost and closer to the people. Our federalism agenda responds to that call.

March 11, 1982

Senator EXON. Thank you, Mr. Chairman.

Chairman DOMENICI. We have to proceed with another panel but I want to ask a couple of questions and then maybe I will submit some in writing.

MEDICAID IS CORNERSTONE OF GENUINE SWAP

Let me, Governor Snelling, first commend you for your activities on behalf of the National Governors' Association with reference to New Federalism. I think that we could get bogged down in differences rather than move ahead with the rather broad areas in which we have similar purposes. I remain somewhat concerned about the position that, yes, the President made a good proposal as far as medicaid. I think it is more than good. I think it is historic.

I think if you are going to get a real genuine swap in this country, medicaid is the cornerstone. I am generally complimentary of the President, and have told him so, for having the courage to do that because it would put most of the major health programs in the national basket, and there has been great debate for years about that. That's what the President has done. But it seems to me that if the Governors remain Governors, and those associated hold fast to the notion that the only part of the swap that you are taking is medicaid, there is no swap. The rest is a big package of categoricals. I think you still need a two-tier proposal and I want to talk to you about it.

I think you need more of a swap at the top end and then the categoricals come in a package at the other end. If you cannot have food stamps and AFDC, is it possible that you can look at the vast array of programs and talk about some kind of a block, maybe called poverty alleviation, or some such category that becomes the other part of the swap? Because below that you are not swapping programs, you are swapping dollars for programs, right?

Governor SNELLING. Yes.

Chairman DOMENICI. And I am thinking that you have to have program for program and then dollars for programs. I think I know what I am talking about.

Governor SNELLING. I think you do, too.

Chairman DOMENICI. You are not going to mesh them unless you do.

Governor SNELLING. No; I think you do, too, Mr. Chairman.

Chairman DOMENICI. Is there anything being looked at in that regard?

LAST YEAR'S BLOCK GRANTS OF CONCERN

Governor SNELLING. Mr. Chairman, I think we have to proceed a little bit with a recognition of how the point of view about how something will work out has been shaped by prior actions. Many of the Governors and many of the State legislatures and others are very concerned about what happened last year when basically we got a relatively small number of block grants and they were flawed to a considerable degree.

In many cases, the so-called block grant contained language and mandates which really did not give us the flexibility which we have historically associated with block grants. I would have to say to you that if experience with block grants were over a period of time to justify a confidence, that block grants could be used the way you have just described; that the attitude of the Governors in the State legislatures would probably change and they would probably feel more secure in the knowledge that they could, in fact, meet a set of assigned responsibilities with a reasonable combination of their own source funding and such additional funding as they might be entitled to by measurement of capacity or some block grant or revenue-sharing type of concept.

Mr. Chairman, it is important to note, however, that when you can get 80 percent of the Governors of the United States who are split almost evenly as to party and who, of course, come from regions with immense differences and current economic circumstances and the like, to agree to a specific proposition or fairly specific proposition, it is probably more reasonable for those of us who are charged with what is referred to as negotiation to assume that that is the area where we are more likely to find agreement than it would be to try to go back on the telephone and start some brand new evaluation. We think we have a degree of cohesiveness now, not only including the Governors, but the other non-Federal partners which ought to be of significance to the Congress.

Chairman **Domenici**. Governor Matheson, we have gone over the blocks from last year. We have had enough discussion about their quality. The administration is proposing, aside from New Federalism, a series of block grants for this year, some are expansions upon existing efforts, some are brand new.

Do the Governors have an official position on whether the Congress should proceed with those in this intermediate year or not?

POSITION ON BLOCK GRANTS

Governor **Matheson**. Mr. Chairman, we did not address the additional block grants for fiscal year 1983 on a specific basis at our midwinter meeting, but all of the blocks from 1982 and the proposed blocks for 1983, if I am not mistaken, are within the negotiation process, with the administration, and since we have supported formerly blocks in the past under terms and conditions we talked about a lot of times, so I will not get into them, it would seem to me that we would support a continuation of the block concept. That being the case, I am sure we would want to take a look at those but I think we are concerned about the blocks this year in terms of the flexibility. And I suspect from the discussions I have had with some Governors, that if we ended up getting the blocks without the flexibility and a massive cut, I do not think we would want them on that basis this year.

Chairman **Domenici**. So all but two of the proposed programs for further blocks are already included in either the President's initial federalism proposal or the Governors' and other counterproposals?

Governor **Matheson**. Yes.

Chairman **Domenici**. For transfer the other way?

Governor **Matheson**. Yes.

Chairman **Domenici**. I guess one would look at it from the standpoint of what is realistic. If the federalism is alive and moving, it seems like it would be very transitory to work on the eight blocks now, and they would be done away with very quickly if you did the others.

So you probably would conclude we ought to move as far and as quickly on the federalism notion.

Governor MATHESON. We have our sights set pretty high this time.

Incidently, Governor Snelling has indicated the status of those negotiations. We are meeting again next Wednesday, and progress is being made and we are supposed to, I think, have our work done by the end of this month.

Governor SNELLING. That is right.

Governor MATHESON. If that is the case, we are prepared to get our homework done and address the larger question.

STATES REACTION TO CUTS

Chairman DOMENICI. Did you tell us in your testimony or in any of the charts how the States reacted to the cuts? Did they pick up new money on their own and supplement? How did they respond to them?

If that is there, I do not want to ask about it.

Governor MATHESON. We do have some information in the formal testimony. They reacted to the cuts in many cases by increasing taxes, over half the States increased taxes in 1981.

Second, a number of the States, and we think over half, have underprojected their revenues and find themselves in that situation as well. Third, States are cutting the programs or the portions of the programs which took the cuts.

So those are the combinations that occurred. If it would be helpful for your committee, Senator, we would be pleased to try and get an update and submit it for your information.[1]

Chairman DOMENICI. All right.

Governor SNELLING. May I add that it is important to note what determines whether a State raises its taxes or axes its programs because that gets to the heart of the Federal system that we have. If a State already has relatively low taxes and finds that it can no longer finance what it considers to be adequate programs, it can raise its taxes and still have lower taxes than the national average. That choice is really not available to many States. For many States you will find that they both increased their taxes and reduced their programs because the degree of severity of the Federal cuts was so great as to require that.

COST-OF-LIVING INDEX FREEZE

Chairman DOMENICI. Well, Governors, it is obvious to me, and I think obvious to my good friend, Senator Hollings, when I look at the proposal that he has made, that we can talk about cutting military and talk about raising taxes. We can talk about how much we should go along with freezing the discretionary appropriations. But the big items remain, and that is the entitlements, and, within that, the cost of living indexation of those programs.

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[1] Not received at time of printing.

I do not know if this is fair to ask you, but I guess I will ask it anyway. If the Congress went along with the freeze of discretionary appropriations at the level recommended so that you have 2 or 3 years to adjust here, would the Governors' Association support some kind of a cost of living index freeze?

Governor SNELLING. I will answer it personally.

The Governors have not taken a direct position on it, but I think it is absolutely clear mathematics, unless you get control of the uncontrollables, we are going to be out of control.

Your proposal is precisely to do that. So I personally laud it. Both of you.

Governor MATHESON. We have not taken an official position but I do not think that any expenditure made by the Federal Government today should escape careful scrutinization, and I think the approach is one that I would personally support.

Chairman DOMENICI. Mr. Kiser?

Mr. KISER. I think, as a general rule, anything, whatever the Congress does that results in a lower dollar amount, that without the accompanying reduction and restrictions and mandates, we are not in favor of. But any further reductions that result as long as some of those restrictions and mandates can be lessened to give us the flexibility, we have a much better opportunity at the State level to deal with that. But without some reduction in that, any further cutting or even just holding a line, which in effect means a reduction, is going to be difficult to deal with.

Chairman DOMENICI. Well, Mr. Kiser, I am talking about something very dear to Floridians so I will not ask you to comment. But we are not talking about that in this last one. We are talking about social security, Federal employees retired, military retired. You do not have any control over those now. We do not have to give you any more flexibility. We are just wondering whether you are going to support freezing or significantly changing the cost of living indexation of such programs.

Mr. KISER. Mr. Chairman, I understand that, and I am glad you are not asking me about that because of the impact that it has.

My area of Florida has more social security recipients than probably anywhere else, but we do realize those have to be looked at.

I was addressing my comments to my hold in that area. I would like to finish up that Governor Snelling very clearly outlined our position, and we are in total agreement with the Governors, that on the issue that the Senator raised about the social security income—the income maintenance, food programs, et cetera, we have not been in favor of transferring that. We have been consistent with that all along the line. We are not.

I want to make sure that that is clear before we move.

Chairman DOMENICI. And on social security cost of living, Florida votes——

Senator EXON. Passes.

Chairman DOMENICI. I was going to say abstains.

Senator Hollings?

Senator HOLLINGS. Thank you, Mr. Chairman.

PROGRAM OF FEDERALISM GOAL ORIENTED

I have had the distinction of serving with Governor Snelling on the President's Commission on Federalism, and Governor Snelling raised an important question in one of our earlier meetings relative to the President's program on federalism, whether it was procedure oriented or goals oriented.

The difference is that if we are aiming for a goal, there could be adjustments in the figures to make certain that everyone is held harmless, and that it is not—as, some have called it, a swindle rather than a swap.

Governor Snelling, in negotiations that you and the other Governors have had with the administration, are you now assured that the program of federalism is goal oriented, that the problem is not money but where these programs can be better administered?

Governor Snelling. Yes, Senator. I think the President and his representatives on the negotiating team have been crystal clear and unequivocable that no part of the President's initiative is aimed at securing a budgetary advantage as regards programs for State and local governments. He has promised that there will be no relief, neither relief of Federal burdens or transfers to the States.

STUDY CRITICAL OF FEDERALISM PROPOSAL

Senator Hollings. I noticed one critical study of the federalism proposal by the Ways and Means Committee that said it would really cost about $4 billion more. In meeting with the President, I said that in terms of a vast program of this kind to be implemented by 1991, we should not quibble over $4 billion. We must get every assurance that we possibly can that this proposal is not just a way to reduce Federal spending.

It should be focused on providing for more efficient and more responsible government.

I am glad to hear that in your negotiations you do not have any concern about that because all that was advertised in the very beginning is we are trying to balance the budget. We found a new crowd to offload those burdens on. You do not have those misgivings any more?

Governor Snelling. A principle set by the President and others is very clear. Whether a specific proposal will result in inequity is a matter of accounting, and there we do have the task of matching David Stockman's numbers to our own. But I think we are equal to that.

Senator Hollings. You have not quite matched them, I take it? I have been trying to match my figures with his for a year and a half, and I was trying to find out if you did any better than I.

Governor Snelling. We do not feel incapable of doing that. We feel adequate to that task.

Senator Hollings. Well, I appreciate it. I am not trying to press it.

I feel capable and I feel adequate but I have not done it yet, and if you folks can possibly do it, and we can talk one set of figures we know where we are heading.

Governor Snelling. I think we will be talking one set of figures on or about April 1.

Senator **Hollings**. Good. Thank you.

Senator **Exon** [presiding]. Gentlemen, the chairman has asked me to call the next panel, but before I do that, I just wish to thank Representative Kiser and Governor Matheson and Governor Snelling for your excellent testimony, and we will take a look at it and, as I am sure as we move through this, we are going to need the input and advice and cooperation from both of the important political groups in America that you represent. Thank you very much for coming.

Governor **Snelling**. We appreciate the opportunity to be heard.

Senator **Exon**. We will take the next panel.

Gentlemen, we welcome you. For the record, I would like to state that the National School Boards' Association has submitted testimony for the record and copies of that testimony are available for those who are interested.[1]

We would like to welcome Joseph P. Riley, Jr., the mayor of Charleston, S.C., which I understand is not too far from Clemson University, that we Nebraskans have come to know and appreciate since January 1 of this year. I knew that there would be a rise from my colleague on the left with that. As I understand it, the mayor is representing the National Conference of Mayors.

And Tom Moody, mayor of Columbus, Ohio, representing the National League of Cities. We are honored to have Mr. Alfred Delbello, county executive of Westchester County, N.Y., testifying on behalf of the National Association of Counties.

Gentlemen?

Senator **Hollings**. Would the distinguished Chairman yield for just a second?

Senator **Exon**. Yes, I will yield.

Senator **Hollings**. Mayor Moody and Mr. Delbello can understand my admiration for Joe Riley, the mayor of Charleston. That is my home town, and if you want to see local government really operate in the most competent, efficient, responsive manner, with an outstanding mayor and city council, then go to Charleston. That is where the War between the States started.

I do not know if Nebraska was on either side——

Senator **Exon**. Yes, we were, but we should not get into that.

Senator **Hollings**. But Mayor Riley served on the League of Cities Board and he has a unique feel for federalism. We all talk about local government is the best government. I have watched him over the years and he has done a superb job with every one of these Federal programs. He knows the strengths and weaknesses of them.

The Budget Committee staff visited the city of Charleston recently. I could not be present at that particular time, Chairman Domenici, but they went over the impact of these programs. As the former mayor of Albuquerque, you can understand my enthusiasm for the mayor if Charleston.

You can get anything out of this chairman. He is for the mayors. I welcome you here to this panel.

Chairman **Domenici**. Are we ready?

Senator **Hollings**. Yes.

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[1] See p. 344.

Chairman **Domenici**. We will proceed.

Mayor Riley?

STATEMENT OF JOSEPH P. RILEY, JR., MAYOR, CHARLESTON, S.C.

Mayor **Riley**. Thank you very much.

I first of all would like to thank Senator Hollings for his far-too-generous statements; his support of our city, as well as his comprehensive understanding of the needs of cities throughout our country, and to my way of thinking, his very prudent approach and moderate approach to the 1983 budget, which is something that we in South Carolina and in Charleston are very proud of.

I prepared a written statement on my behalf and that of the U.S. Conference of Mayors. I would rather submit that if I might, Mr. Chairman and rather speak to you informally from a keynote briefly this morning.

Chairman **Domenici**. Your statement will be made a part of the record.[1]

You may proceed.

Mayor **Riley**. Thank you very much.

A good friend of mine, Ralph Widener, the head of the Academy for Contemporary Problems was talking about American baseball and Chinese baseball. In Chinese baseball, it is very confusing if you do not know what is going on, because in Chinese baseball, unlike American baseball, they do not move the ball, they move the bases. So you need to keep your eye on the bases if you are going to understand what is happening.

I believe on behalf of the cities that in the last year and a half, in our country, we have taken our eyes off the bases, off the needs and realities of our cities and focused on the ball. Rhetoric, Reaganomics, New Federalism, or whatever the terms, we have not had a debate over the continuing issues of the plight of the urban areas in the United States. Rather, it seems we have had a game of who has the weakest constituency. Our cities, their poor, deteriorated housing, high unemployment, high youth unemployment, are just not—have not been the popular constituencies.

RETURN TO NATIONAL URBAN POLICY

Aside from the specific budget proposals, Mr. Chairman, I would ask that we consider a return to a national urban policy. The realities have not changed. The caravans that occurred and passed each other two or three decades ago, those Who could afford moving out, passing those who could not afford moving into our cities with the highway system leaving pock marks, decayed housing and high unemployment and the like.

Our national urban policy is essential to be maintained. We as a country ask our cities to house the poor; we ask our cities to house the hospitals, which pay no taxes. We ask our cities to house the colleges and the universities, which pay no taxes, to keep up park systems, auditoriums, art galleries, museums; we ask our Nation, the most urban nation in the world, to provide these essentials for our society.

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[1] See p. 284.

What the cities ask in return, Mr. Chairman, is not that you to do the work for us but simply help provide the resources. Someone wrote a couple of years ago that in the United States, we have a very unusual situation. On a national level, we have great wealth. On the local level, we have great need and as luck would have it, every citizen lives at the local level. What we need is to recognize that the wealth of our Nation exists without the boundaries of our cities.

We have borne a disproportionate share of the budget cuts since 1981. Including the proposed fiscal year 1983 budget, $50 billion have come from State and local programs, local government programs.

FORTY PERCENT OF BLOCK GRANT PROGRAMS LOST

In the city of Charleston, we believed in the Nation's urban policy. We did the planning; we did the consensus building. We began housing rehabilitation, using our community development block grants program. In the last 2 years, including consideration of inflation, we lost almost 40 percent of our block grant programs. In 1976, right after I was elected, it cost about $12,000 to rehabilitate a house in the poor side of our city. It is double that now, and yet we have lost about 40 percent of the money; in addition, we are told to use our block grants for replacing the section 312 loans which contributed about $300,000 to the city annually and, as Senator Hollings knows, to restore the second and third floors of buildings along our main streets and apartments in the poor sections of our city, conservatively, $500,000 pumping into housing in our cities. That should come out of the block grants we are told. Land and water conservation funds were abolished. Our parks and playgrounds, as Senator Hollings knows, for so long were allowed to run down and the city did not have the resources to do that. That should come out of our block grants.

The urban parks recovery program is gone, that should come out of our block grants. Historic preservation program is gone; that should come out of our block grants. EDA, is gone and that should come out of our block grants.

By my way of computing, we would have about $4 million of these for our block grants and we have $1.7 million, about a 70 percent loss of a quintessential New Federalism concept, the community block grants which sought to bring in all the categorical grants, block grants back to the cities without redtape. The UDAG program, absolutely essential for the critical mass kinds of development in our cities, continually under attack, twice threatened to be not refunded, substantially cut and in the city of Charleston, we have $8 million that has provided 1,600 new jobs in the private sector, $60 million of developments in our cities.

We all read the Business Week article of about 2 months ago and in the next 10 years, $700 billion worth of infrastructure, rebuilding, will be needed in the cities of this urban Nation. Where they are going to come from, heaven only knows. Certainly not within the budgetary structure that now exists and we see at every local government level, the pressure of deferring maintenance, of deferring necessary capital acquisition.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

One of the great human, hard-core problems in our cities is that we now are in the third generation of the unemployed. The chronic unemployed who, without direct training, high targeted training, will never be able to compete and enter the job market. The city of Charleston, using title VII funds, set up the Private Industry Council; we now have Control Data Corp. operating a business and technology center in the poorest part of our city, working with the city venture program to create 1,500 new jobs for the chronic unemployed, those in the 20 and 30 percent unemployed bracket. Summer youth, a program that will be lost. That has been used to paint old houses in our city—the young bringing that money home to the table to put bread on for their families.

We relate to Senator Hollings approach of the freeze because the cities know best about freezes. Revenue sharing, quintessentially New Federalism, has not increased a penny since 1972. Its effective value to cities is 50 percent of what it was when it was enacted 10 years ago.

I agree with the thrust of Senator Hollings question of Governor Snelling in regard to New Federalism. Cities support the attempt to sort out and make programs more responsive and we welcome the decisionmaking and the responsibilities at the local levels; we are used to that. But what we fear as originally proposed, is that New Federalism would only accomplish shifting a difficult problem to the lower level, shifting a problem from a national and progressive tax system to the local level, a regressive tax system.

We are concerned about the passthrough, why would revenue sharing and block grants which go directly to local governments now be routed through any other government, as is now proposed? Why UDAG? There is no one in most State government levels who has the experience of urban redevelopment and economic development like the UDAG programs that we have had in Charleston. Why should we set up a bureaucracy at State capitals throughout our country? If the resources can be guaranteed, we do not have to depend on something that is going to be phased out by 1991 and if we have the direct control at the local level, then the mayors will join in the support.

NATIONAL RESOURCES MUST BE HAD

Last, in conclusion, Mr. Chairman, my city, like 45 percent of the cities in the United States last year, raised taxes. My city, like 80 percent of the cities in the United States last year, laid off workers. My city, like 90 percent of the cities in the United States last year, reduced some services. My city, like 72 percent of the cities in the United States last year, deferred needed capital improvements. It has a nice ring that we will not balance the budget on the backs of the taxpayers, but every single year in the city of Charleston, that is precisely what we have to do; because we will have no place to go, yet we have the least responsive, most regressive form of taxation: the property tax. It is done on the backs of our taxpayers and their backs will soon break.

I welcome the opportunity to lead my city in this time. For those who are interested in public service, working in urban problems, it is a very challenging and very rewarding opportunity.

I strongly believe it is the real important domestic challenge of our time.

We will accept the responsibilities of building the bridges. I will begin my day at 8 o'clock with the business leaders from uptown and close it at 9 p.m., with the citizens concerned about our health care centers being closed. We will do the planning. We will bring our community together but we must have the national resources.

If you say to the cities of our country, within your resources, you rebuild your cities, its no different than telling someone who has lost an arm, grow it back yourself; because those who use our cities, who depend on the institutions of our cities, are far beyond our ability to tax.

The plants that move in, that depend on our hospitals and our art galleries and institutions, we will never be able to tax them. The suburban citizens who use the cities, we will never be able to tax them. The Federal tax system is the only mechanism for your urban centers surrounded by suburbs, surrounded by rings of business and industry to be able to catch their resources and do the job we need to do to rebuild them.

We ask, Mr. Chairman, and members of the committee, only that the resources of our Nation be made available to our cities.

We ask that the urban policy not just play loud in a one-night stand in Peoria, but rather that 50 years from now, the 1981 tax expenditures be able to stand up to the needs of the urban ghettoes in the United States.

We need a program that is not a quick fix but a lasting remedy for the problems of urbanization.

Thank you very much.

Chairman DOMENICI. Thank you very much.

PREPARED STATEMENT OF JOSEPH P. RILEY, JR., MAYOR, CHARLESTON, S.C. ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. Chairman, Member of the Senate Budget Committee, thank you for this opportunity to testify on the FY83 budget.

I appreciate the efforts of the members of this Committee to formulate alternatives to the Administration's FY83 budget. I personally support the approach of Senator Hollings to establish a freeze on domestic expenditures, roll back part of the tax cut, and restrain defense spending to achieve a major reduction in the federal deficit.

The Conference of Mayors, along with some of the other state and local organizations, have called for a moratorium on further cuts in aid to state and local government. We have taken more than our share of cuts already, fully two-thirds of the FY82 cuts.

The Administration's FY83 Budget

The Administration's FY83 budget proposes major reductions in literally dozens of important urban programs and the elimination of many others. These cuts, if enacted, will seriously undermine the economic and social health of cities.

Under the Administration's budget, total grants to state and local governments are scheduled to decline to $65.1 billion in FY83 from $78.3 billion in FY82, and from the much higher level of $105.8 billion in FY81. Moreover, it is important to note that the Administration proposed and pushed through Congress nearly $9 billion in reductions in FY81 spending. Thus, the total cut in state and local assistance enacted and proposed by this Administration is nearly 50 billion -- a significant scaling back of the federal government's commitment to cities and to urban residents and businesses.

In FY82, state and local governments were forced to bear two-thirds of the budget cuts, even though federal assistance to state and local governments accounts for only 11 percent of the budget.

The FY83 budget reductions and the elimination of urban programs proposed in the budget would impose substantial new burdens on cities, already reeling from the more than $28 billion in cuts enacted in FY82, as well as high unemployment and high interest rates. Once again, cities are being told to assume new responsibilities out of existing programs -- such as the Community Development Block Grant program -- and with fewer overall resources. Further, the beneficiaries of these federal programs are being told to address their unmet needs to local and state governments, which threatens to compound the human and budget problems facing cities. All indications are that the result will be increases in property and other local taxes, additional layoffs, and service cuts at the local level.

The immense cuts in city and state programs stand in sharp contrast to the treatment of other federal activities. The Administration proposes to increase the defense budget by over 50 percent from the FY81 level which prevailed before it took office. In addition, tax expenditures continue to escalate, accelerated by the recently enacted tax law, phase two of which takes effect this year. This tax cut, along with high unemployment and the rapid rise in defense spending, are the major contributors to our unprecedented large federal deficits.

There are several new block grants and program consolidations proposed by the Administration for FY83. These include seven new block grants, six of which would channel funds to the states, and the folding-in of five additional programs into the existing block grants. All of these block grant proposals involve rather substantial cuts from the total funding level of the programs they replace. The Conference of Mayors is concerned about these reductions and the wholesale turnover of additional programs and responsibilities to the states.

We also are deeply concerned about the proposed abolition and reduction of funding for important urban programs. These program cuts will have a direct impact on the ability of cities to provide important public services.

- Housing: The elimination of all Section 8 subsidies for new construction and substantial rehabilitation, all public housing development funds, reduction in Section 202 subsidies for the elderly and the handicapped, and a rise in the rent which low income families must pay for housing.

- Job Training: The abolition of all CETA training programs in cities and their replacement with a much smaller state training program. In addition, several employment and training programs would be consolidated into a much reduced nationally-operated program for a wide range of "targeted" groups -- older, displaced, Indian and migrant workers, homemakers, and veterans -- who would have to compete for funds.
- Transportation: Major cuts in transportation programs which benefit cities, including a 38 percent cut in public transportation operating subsidies, the beginning of the program's proposed phaseout; a 44 percent cut in the Federal Aid Urban System; a reduction in funds for Amtrak, and the Northeast Corridor; and complete elimination of federal capital aid for the nation's 41 largest airports.
- Energy: The virtual abandonment of all energy conservation activities, including low-income weatherization assistance, the schools and hospitals grant program and research programs in solar, renewable, and alternative energy sources and district heating.
- Education: Major cuts in elementary and secondary education program, impact aid, ESEA Title I (Chapter 1) for disadvantaged and handicapped children, higher education loans and grants, and vocational and adult education.

- Economic Development: The termination of all EDA programs.
- Management Assistance: The elimination of nearly all management assistance and planning funds to local governments.
- Urban Environment: The elimination of the Urban Parks program and historic preservation funds and continued opposition to any funding for the Land and Water Conservation Fund.
- Community Development: The abolition of the Section 108 Loan Guarantee program and the Section 312 Rehabilitation Loan Program.

We are also concerned about the continuation of funding for general revenue sharing, the Community Development Block Grants and UDAG program, public transit capital grants, and EDA wastewater treatment. These programs are not proposed to be cut in the President's FY83 budget, although most were reduced significantly in FY82.

In addition, the Conference of Mayors is concerned about the many eliminations and reductions of funding for programs which serve our neediest urban citizens.

- Significant reductions in nutrition programs, including the Women, Infants, and Children feeding program (WIC), food stamps and child nutrition programs and elimination of the special milk, summer feeding and nutritional education and training programs. These cuts, especially in the WIC program, are particularly ironic and misconceived, in that the program is proven to decrease child mortality, mental retardation, and other costly problems.

- Drastic reductions in Medicare and Medicaid programs and additional cuts in the health block grant programs enacted last year.
- Cuts in a wide range of income support programs, including AFDC and Supplmental Security Income and the elimination of Trade Adjustment Assistance payments to the individuals.
- A 20 percent cut in child welfare services, foster care, adoption assistance, and child welfare training, which would be consolidated into a block grant to states, and a further 18 percent cut in the Social Services Block Grant.
- Reductions in Administration on Aging programs -- in home services, transportation, crime prevention, outreach, nutrition, and other programs which serve the elderly and the abolition of special employment programs for over 54,000 part-time workers.
- The abolition of the Legal Services Program, and a major reduction in funding for the Community Services Block Grant from $342 million to $100 million.

- Cuts in federal credit activities, including direct and guaranteed loans of the Small Business Administration, HUD, and the Farmers' Home Administration.

The Administration revenue proposals are also troublesome. We are particularly distressed at proposals which would sharply limit the issuance of industrial revenue bonds and impose a minimum corporate tax on interest income from tax-exempt state and local securities. Nor are there any immediate plans to turn back new revenue sources to states and localities, despite the many additional responsibilities these governments are asked to assume.

Economic Policy

The economic policy of the Administration as reflected in this budget is also cause for concern. High unemployment is concentrated in large part in our nation's cities and translates into record-high unemployment rates for minorities, women, young people, and blue-collar workers in urban areas. The persistence of high interest rates directly affects our borrowing costs, and the costs of needed investment in public infrastructure.

Yet despite an average unemployment projection of 8.9 percent in 1982, there are no proposals for any special job-creating programs and, in fact, current employment efforts are slated for elimination.

The counterproductive effect of high unemployment is evident in the high deficits projected by this Administration for FY83-87. Each one percentage point for unemployment raises the deficit by over $25 billion, due to increased expenditures for unemployment compensation and other benefits and decreased revenues.

Moreover, high interest rates, in part a response to our high federal deficits, generate still higher federal deficits because of the federal government's increased borrowing costs. A two percent increase in interest rates directly generates an additional $11 billion in federal outlays and has a serious adverse effect on city borrowing costs, as well.

A Positive Program for Economic Growth

The Conference of Mayors urges the Budget Committees and the Congress to enact an FY83 budget which will provide the investment in human and physical capital which is necessary for this country to become productive and internationally competitive once again. Such public investment is a necessary precondition if the private sector is to invest, expand, and increase employment. Federal training and education programs, as well as federal investments in urban infrastructure, energy conservation, housing, and public transportation should be part of such a package.

Third Budget Resolution for FY82

Mr. Chairman, as you know, there is some urgency to enactment of a third budget resolution. Many of our urban programs will require supplemental funding, including the EPA wastewater treatment program which has received no funding to date. Moreover, enactment of another continuing resolution in March may require additional leeway. I hope this Committee will expedite consideration of a third budget resolution, even if the formulation of the first budget resolution for FY83 takes longer than expected.

Federalism Initiatives

Although the President's federalism initiatives are to take effect in FY84, and do not affect this budget directly, I would like to make a few comments on them.

The major restructuring of the federal system proposed by the President is complicated by the FY83 budget cuts, which once again propose reductions in those programs to be "turned back" to the states. According to Administration officials, the FY83 budget would cut over $6 billion in outlays from the 44 programs involved in the super grant to states, and an additional $6 billion is proposed to be slashed from the programs involved in the "tradeoff" -- Medicaid, AFDC, and food stamps.

These reductions in funding undermine whatever support may exist for the Administration's program. The levels of spending for FY83 take on special significance since they establish a ceiling on the spending levels which can be expected for the next decade if the President's proposals are adopted.

Mr. Chairman, in summary, the Conference of Mayors urges that this Committee and the Congress not make any additional cuts in urban programs this year. We have taken more than our share of federal budget cuts already. Cities are still struggling to adjust to these cuts -- at a time when local budgets are also hurt by high unemployment, high interest rates, growing restrictions on municipal bonds, and reductions in state assistance.

The Conference of Mayors urges you to adopt a budget which invests in human capital, alleviates the unemployment problems in our cities, helps cities meet their pressing infrastructure, transit, and housing needs and promotes the economic development of local economies.

We look forward to continuing to work with you in formulating an FY83 budget resolution which truly meets the needs of our citizens.

Chairman DOMENICI. Mayor Moody, I have to leave shortly, but I want to hear parts of your testimony. I might ask both mayors, kind of in advance of your testimony, this question. When I was a member of your organization, the one you chair, Mayor Moody, there was a festering problem. We were already engaged in the national urban policy. We had not yet consolidated, although we had CETA and six or seven national efforts at job training and hardcore unemployment, education and job placement. We had urban renewal. We had the beginning of rehabilitation of homes in the slum areas. We had the poverty program.

RELATIONSHIP OF CITIES TO STATE GOVERNMENTS

The one issue that continued to raise its head in the National League was the relationship of the cities to the State governments. I remain genuinely concerned about that issue because it does appear to me that we certainly do not want to go busy ourselves about a new national program that divests all the resources in the State, when our national system is such that the cities are the creatures of the State. I do not know of any State constitution that does not give the State legislatures and the State legislator of the State great power over the destiny of the cities.

While I sympathize with Mayor Riley's concern that we do as much as possible up here to channel the resources down, I wonder if you could give me the present thinking of the National League on the relationship of State government to cities? Is it better than it was 10 years ago? Are they more responsive to the requests of the cities in terms of the issues of taxation, sharing of revenues, and enabling authority that permits them to do things that they want to do?

They are not only hamstrung by resources, or lack thereof, but cities are hamstrung by their being creatures of the State.

I would very much like both of the mayors to, just for the record, address that. I think it is very relevant to New Federalism.

Mayor MOODY. Mr. Chairman, your question is a timely and appropriate one and I must emphasize that my answer is in the nature of a guess in terms of statistics, because I know of no recordkeeping that would allow me to answer very accurately the portions that our membership finds itself in with regard to these issues.

You will recall when you served as mayor, that there were almost as many views as there were mayors and that has not changed substantially, although there tends to be some more central grouping.

FEAR OF NEW FEDERALISM

As I talked with my colleagues, I found that there is a certain fear of the New Federalism, not because of the proposals themselves, because most people that I have talked to from any political party, thinks that it makes sense to put the responsibilities, to sort out the role of responsibilities and accountabilities and to deal with placing functions where they belong, getting some jurisdictions out of the business, getting other jurisdictions into the business, and so on.

Continuously, though, there are expressions on the part of my mayoral colleagues that they do not trust the Governors and the State legislatures. So some of that still remains.

But I think we also have to recognize that in other jurisdictions, there are some, much more satisfactory relationships.

In Colorado, for example, in Iowa, there are strong home rule traditions. I have several times remarked a little bit inaccurately, but nonetheless, mostly truthfully, that if it were not for the State capital in the city of Columbus, I would consider the government of the State of Ohio totally irrelevant to the existence of the city.

We operate very strong home rule traditions in Ohio. That is true in a number of other States, but then, on the contrary, it certainly is not true in Maryland, in Missouri, and some other States, so the answer, I think, must remain a mixed one. All of this is complicated, Mr. Chairman, by a new war that is emerging, a new threat that hangs over our heads and that is the combined impact of the *Lafayette* and *Boulder* cases in which the Supreme Court of the United States is saying that ours is a two-tiered system of government and that the Federal Government cannot recognize cities.

I think that you are likely to find mayors on both sides of this issue, depending upon the specific issue which is being discussed.

When we talked to the Senators, the House, about funding, we feel somewhat differently than when we talked about some of the other issues that are involved in antitrust, for example.

CITIES HAVE SOPHISTICATION TO DEAL WITH UUBAN PROBLEMS

My best response to you is that whether or not you have a strong home rule tradition, whether you are largely governed by the State or whether you are used to governing yourselves, the cities, for the most part have a sophistication in dealing with urban problems and an experience in dealing with urban problems which does not exist in State governments at all.

I presume there could be some notable exceptions to deal with my rhetoric and to disapprove it. But I would submit that the entire State of Maryland is an entirely different proposition than the city of Baltimore.

I would suggest in Iowa, which is one of the most urban States in the country, I think it still remains the most urban State, although California is approaching us, if it has not passed us.

The eight largest cities are in a totally different world than is the State government. We account for a sizable proportion of the State population. Many of our smaller cities, down to relatively small cities, have home rule and function in quite the same way we do in regard to State law.

Mr. Chairman, I cannot make my answer brief, but I will simply end it by saying that the picture remains mixed but the analysis of it has improved substantially since your departure from the ranks of mayors and while the solution does not seem to be any nearer, I believe that those institutions, such as the National League of Cities and Conference of Mayors, have sharpened our focus on issues so that we are responding better, issue by issue, if not principle by principle, to deal with these things.

Chairman DOMENICI. Thank you very much, mayor.

Mayor Riley, do you have any comment on that proposition?

INNOVATIVE THINKING MISSING

Let me tell you why I asked it. I note that both of your organizations are working, whether it is with the Governors or in an effort to address the issue of re-federalization or New Federalism and I am somewhat concerned that I am hearing from the mayor-type groups an analysis that makes me think they are more concerned about the specific programs that might or might not pass through. I think you ought to be concerned about that but there is not any innovative thinking about what Congress might do of a generic nature as we move in that direction, either by way of the incentives or, the opposite, measured against some kind of State recognition of local autonomy or problems. It is easy for me to spout those words; it is very difficult to put it into something that would be a part of the concept; but it does appear to me, and that is why I raised it with you, to be a rather relevant issue. I do not think you should end that notion by saying, "make sure that the UDAG-type things pass through."

I think you will get a lot of support for those kinds of notions, but is there a broader concept that could be the national Government's recognition of the problems you have just described, problems and abuses? I mean, why create total new management schemes at the State level for the expertise that will never be there; it is there in your office and your councils, and it is not going to go to other State capitals; That is why you start at 7 o'clock in the morning with the problems. They do not meet all day on State legislatures on that; the Governors have different problems.

It does seem to me that there is a statement of principles that we would incorporate in the federalism notion. Maybe it is even more specific than that; that we are concerned that as we pass the resources down that the States, that the cities get a fair shake in the broadest sense—more authority.

You know, when I was in your group, we had many cities failing, asking State legislatures to give them authority for a motel room tax so that they could build a convention center. The legislature would say, "we do not want any more taxes. Even if you want to put them in your city, you have to have authority from us. No." We had cities wait 5 years for those kinds of things. Your statement would indicate that that is getting better.

WAITING TIME GETTING BETTER

Mayor Moody. I believe it is getting better, but there are sufficient examples of your memories to say that it is not by any means perfect and in some places probably has not improved at all.

Mayor Riley. Just a few brief things, Senator.

At this very moment in the South Carolina House of Representatives, there is a rural senator filibustering a bill that would give Senators the right to enact an accommodation tax at this very moment on the calendar. We have tried to get——we have the most restrictive annexing law in South Carolina.

I served on a committee on alternate sources of revenue, a sales tax, the Governor is proposing it, a fine leader; the road is difficult. It seems to me, Senator, and you stated it so well and comprehensively, the breadth of the issue that hopefully, as we enter this new design of how our Federal system works, that we be careful not to expect perfectly net charts, so to speak, but rather use the Japanese work council approach of what is going to work; and they do not have the expertise for housing we have in the State, if we put that there now, it is going to be 10 years before it is sufficiently redeveloped. We are going to create a bureaucracy.

On the other hand, in some of the social service areas where the State has been involved, that might be a more realistic place for it to go and I would—maybe the idea of incentives that the Carter administration proposed something like that a couple of years ago, of some grants, if the State did certain things, they would get this. But maybe the approach would be to try to get the passthroughs to go, the block grants, revenue sharing, hopefully keep the UDAG or something like that available with an understanding that we, 5 or 10 years down the road, look at how these programs have moved along and maybe there can be some additional——

Chairman DOMENICI. Mr. DelBello, I did not mean to exclude you. Certainly your comments would be appreciated. I do not have any experience with your role. We do not have county executives in New Mexico. You do, and Maryland does. But if you have any observations, I would be glad to hear them, and then we will have Mayor Moody give his testimony.

Mr. DELBELLO. Matter of fact, I think I was a mayor when you were a mayor and active in the same organization and was a county executive before that.

In my county, I have six urban cities. The city to which I was mayor, a number of years ago, the city of Yonkers, N.Y., is the fourth largest city in the State of New York. So I have some experience in this and being the chairman of the National Association of Counties, Urban Affairs Committee, and President of the National Council of Elected County Executives, we deal with this issue every day.

As was indicated, we are working together with the mayors, with the Governors, in putting together this negotiating process in trying to arrive at a simple statement of goals and objectives and working with the White House staff to see if it could be accomplished.

There is some encouragement.

We have all asked for this redistribution of authorities over the years and now that we are caught with it, we have to deal with it, quite frankly, and we cannot walk away from it.

I have a couple of concerns. If this is not a unbundling of the Federal budget and if it is not a system of relieving some of the Federal budget expenses, at the sake of local government, then there should not be any great rush in accomplishing it. I think we ought to take our time to do it right because it is an extremely complex process.

PROCESS OF SELF-PRESERVATION

I am also concerned with the State issue, as you indicated, which is the purpose of your question. The State operates as any other human being operates, as we operate in local government. When they are under tremendous financial pressure, they will find ways to preserve themselves, to divert funds, to reap off the administrative areas that they can, and right now the States are under terrible financial pressure, not all of them, most of them; particularly ours in the Northeast and the Midwest, and those States are looking for every dime that they can find to help themselves out.

As these programs flow through the States, there is a tendency to utilize what they can out of them for their own self preservation as they look towards helping the local government.

My indication has been, and this is after 17 years of experience in this area, that it is worse today than it was before. In the sixties, when we had money flowing and we had a lot of expansion, a lot of growth, the States were introducing new programs and sort of encouraging local government to get into them, and every so often playing a game of giving with one hand and taking with the other.

But today it is more a process of taking than giving. It is a process of self-preservation, of trying to keep those State taxes within reason at the expense of local government and at the expense of other services.

I think there is more concern today than there ever has been. I think your expressed concern in your question about having to do something at the Federal level to assure, by a statement of policy or other means that you have available to you, that the cities and the counties and the villages and the towns are not shortchanged through the New Federalism, but that it does work as intended to work as a statement of purpose.

I think it is a very valid concern and we should take our time to assure that it is done right. There should be no rush behind getting this process completed.

EXPLORE NOTION OF POLICY STATEMENT

Chairman Domenici. I would urge the three of you in your representative capacities to explore the notion of a policy statement in that regard.

While I am not on the authorizing committees, I do serve on the advisory group, and know a little bit about it. I would be personally willing to assume some responsibility for getting that kind of notion, aside from the specificity of what passes through.

I think it would give us some kind of a national concern for this very divergent system in America. It is almost so unique, you wonder how it has worked. Some States have major home rule, others, none. The county commissions have been rather limp for a number of years; now, all of a sudden, in a number of States, they have great authority. The cities are subject to counties; in some States, they are not subject at all. We cannot solve those problems.

The reason I raised it is because, Mayor Riley, you seem to emphasize, and quite properly, the National Government's role. However, the National Government is never going to do the kinds of things that you could do locally and with your State in terms of your various autonomies and authorities which it cannot vest on you, it has to come from there. So I just leave you with that.

Mayor Moody, if you will make your statement a part of the record. If you would like to briefly state for us what you want to tell us, we will proceed.

STATEMENT OF TOM MOODY, MAYOR, COLUMBUS, OHIO

Mayor MOODY. Thank you, Senator.

A combination of circumstances makes it appropriate that we make it a part of the record rather than have me read it.[1]

I think Mayor Joe Riley has excellently expressed the concerns of the mayors relative to programs and I see no need to repeat that except to embrace it on behalf of most of the mayors of this country.

I would acquaint this committee with the circumstances under which I speak.

The National League of Cities is the largest organization of city officials. It represents some 15,000 cities and Washington. It has both direct numbers and numbers of 48 State municipal leagues.

The policy process by which we determine our positions, is one of very great detail and it requires a vote of two-thirds of our membership in order to adopt a policy. Implementation of the policy, and our specific response to issues and determinations of priorities are done by our board of directors, which met here in Washington the last part of February, the first part of March; and it is those priorities to which I shall speak in these remarks.[2]

Usually, the National League of Cities focuses on funding for specific urban programs, but since Mayor Riley had discussed that, I think there is no need to repeat any of that.

Very simply, we believe that nothing could help cities over their immediate financial problems and enable them to provide needed public services more than an end to our current economic problems and the beginning of a sound recovery.

BUDGET DEFICIT BEING DRIVEN TO DANGEROUS LEVELS

Yet, as we look at it, a large majority of our membership sees quite the opposite occurring. They see that an unprecedented combination of tax cuts, extraordinary increases in defense spending, continuing rapid growth in entitlement programs and high interest rates is driving the budget deficit to dangerous levels.

Municipal officials today have a tremendous interest in that budget deficit because we are very much concerned about the money market for our municipal bonds. These deficits for fiscal year 1983 to 1985 insure a tight money policy by the Federal Reserve Board. We believe that that in turn assures a less than satisfactory rate of economic growth.

Many cities have been forced, during the past several years, either to stay out of the municipal bond market or to pay unusually high costs. Mayor Riley talked about some history.

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[1] See p. 305.

[1] See p. 313.

When I first became mayor in 1972, I was signing municipal bonds with an interest rate sometimes less than 3 percent. I am now signing them at more than 13 percent to do the same kind of job.

When you build that into the financing picture, it becomes an enormous kind of problem. We offer our comments in a bipartisan spirit in this testimony, because we believe that our economic problems did not originate with any particular part or President and in any event, it would be foolhardy to levy blame at this point.

What we need to do now, Republicans and Democrats alike, is to find the right answer as concerned Americans and to this end, the National League of Cities recommends four policies to deal with our economic problems.

EASE UP ON MONETARY POLICY

First, we urge the Fed to ease up modestly on its very restrictive monetary policy. We are not urging, in any sense, a loose money policy, because we are too frightened about inflation and we believe a loose policy would stimulate that inflation. We want the Fed to ease up within its 1982 targets. Such a policy would help end the current recession.

It would help ailing industries and such as the housing and automobile industries, it would reduce Federal borrowing costs and it would reduce the cost of very essential State and local borrowings.

Local borrowing is oftentimes misunderstood. I again refer to Mayor Riley's testimony; I believe, Joe, you said, $700 billion immediately needed for infrastructure, and that is not all new, by any means. A large part of that is major maintenance, which has been deferred for as much as 20, 30 and even 40 years on facilities that are at the brink of simply collapsing in many cases.

RAISE REVENUES THROUGH THE TAX STRUCTURE

The second recommendation is that the budget urgently needs additional revenues over the next 3 fiscal years. The NLC believes that Congress ought to suspend the 1983 tax cuts now and decide early next year whether and to what extent economic conditions justify its reinstatement. My prepared testimony will recite some figures about the extent of that saving.

We also believe that Congress should make a determined effort to raise more revenues through the tax structure. The all savers certificate has diverted funds from the municipal credit market; it has not helped the housing industry, and we believe it should expire at the end of this year. We think Congress ought to sharply revise the rules permitting the leasing of tax credits, in order to make sure that those benefits accrue only to those making new investments in plants and equipment.

In addition, we support reasonable controls on the use of industrial revenue bonds.

SLOW DOWN GROWTH IN DEFENSE SPENDING

Our third recommendation is that the phenomenal growth in defense spending should be slowed down. The administration projects a 9.8 percent annual real growth in defense spending. We believe that this can be reduced to 7 percent annually; that that 7 percent is totally in line with our defense requirements and as a matter of fact, this represents a substantial departure, Senator Domenici, from some of the arguments you heard when you were last mayor and we were in the Vietnam situation and I never thought that I would be testifying on behalf of a group of mayors that we support a 7 percent real increase in defense spending. Nonetheless, that is our position.

We think this will save billions of dollars. These are all outlined in my prepared remarks.

We think the Pentagon should be accountable and we think there are difficulties in spending the kinds of money which are recommended in the budget.

CUT COST-OF-LIVING INCREASES

Our fourth recommmendation is to slow down the growth of entitlement programs. There is probably nothing that is any more difficult to talk about in a rational way than this particular problem. Somehow, a copy of my prepared remarks was made available to a Washington reporter for our local newspaper. I would tell you that although I did not see the paper at home this morning, there was an article quoting some of the remarks from my prepared statement and my office has been bombarded with people who do not want me to testify before this committee about any reductions in social security and a variety of other things.

One Columbus citizen, Mrs. C. D. Meyers, saw fit to call the League of National Cities and leave the message for me that I should not even testify as to the message which I am giving you now.

Nevertheless, our fourth recommendation is that we have a temporary across-the-board cut in cost-of-living increases, limiting those increases to 75 percent, rather than 100 percent of the CPI, during fiscal years 1983 to 1985.

Again, estimates of the savings to be accomplished by this are included in my other remarks.

Now, we know the political difficulty that is associated with this and my own experience this morning—as a matter of fact, when I walked in this room, I was handed a telephone message, and I am sure that that has to do with the very same subject.

We are also concerned, of course, about the welfare of those people because the people that we are talking about live mostly in our cities and they impact on our entire social service delivery system. They are also voters and we are not unaware of that.

But we suggest that an increase of 75 percent of the CPI is not a cruel and inhuman thing at a time when many in our work force are for foregoing all CPI adjustments and indeed unprecedent numbers of foregoing jobs as a result of this Nation's economic crisis.

We have an alternative, of course, and that is to concentrate budget cuts on AFDC and medicaid, food stamp recipients, and I suggest that this would be very much more difficult to justify after the extensive cuts last year. None of these recommendations is very easy for you or any other officeholder to agree to, nor for us to testify to.

But we think that the burgeoning entitlement programs have to be addressed, and we recommend this modest step to limit the increase to three-fourths of that presently provided for.

BUDGET FOR URBAN PROGRAMS

Let me make just a comment or two about the President's budget as it deals directly with urban programs.

This year's budget for State and local programs is better than last year's. But the trend is still downward. If the President's budget is approved as submitted, Federal grants to States and localities will decline in just 2 years from $108 billion to $65 billion.

Now, I am one who steps aside from some of my colleagues and approves some considerable reduction in these matters. But I think Mayor George Volcavich of Cleveland said it well when he said, this is too much, too fast, and too hard to handle.

We believe that we at the city level are bearing an unfair share of this burden. Now, it is true that five of our major program priorities are spared further budget cuts. General revenue sharing, community development block grants, UDAG, mass transit capital grants, and EPA wastewater treatment grants; and we commend the President on this and we are very grateful that he and his staff made these recommendations because we believe them essential to the welfare of our cities.

In some other areas that we consider, we are gravely disappointed, however, and those areas I will cite just a few examples from.

Housing assistance, mass transit operating assistance, employment training assistance, social services programs. In my prepared remarks, there are more details on that.

Mayor Joe Riley spoke some about it and I support those remarks. We do not believe these reductions can be justified. In these cases, and some other cases, we believe the problems that they create will be greater and more costly than the problem of simply continuing as things were.

NEW FEDERALISM

I should like to speak, Mr. Chairman, briefly on the President's far-reaching proposals on the New Federalism. Like Governor Snelling, I happen to serve on the President's Commission on Federalism; I happen to be supportive of him and this is in a personal sense, I am very strongly in favor of a major change in the structure of our Government. However, my colleagues are quite worried about a couple of things.

The first one is whether or not the New Federalism is a blind, a cover for budgetary action and the shifting of responsibility without the shifting of resources. I am convinced that it is not and should not be, and that that is not the intention of the President or any of the persons who serve on that committee.

However, in much of the literature that comes out about the project, it would appear otherwise. I think we have to face up to it, that the President's proposal is one of the most substantial and boldest in the history of the United States and in recent memory, it has to be the most fundamental change proposal since the New Deal of President Roosevelt.

NATIONAL LEAGUE OF CITIES CONCERNED ABOUT NEW FEDERALISM

The National League of Cities will be making its recommendations on New Federalism at a major conference which we are holding in May; we have begun preparation and study for that, and our members are hard at work. We hope to adopt our final positions at that time.

However, we already know some concerns that we should like to urge upon the Congress as you begin debate on these proposals.

TREAT 1983 BUDGET AND NEW FEDERALISM SEPARATELY

The first and most important is that the 1983 budget and New Federalism should be separate and distinct at every turn. No discussion of budget should lead into the New Federalism and no discussion of the New Federalism should lead into the budget, in our opinion.

We recognize there is a relationship ultimately between Budget and Federalism. We are concerned that one should be a stalking horse for the other and this is very difficult for us to deal with.

We urge upon the Congress to keep that in mind.

RESTRUCTURING OF RESPONSIBILITIES

Second, very careful consideration must be given to the proposed split of responsibilities between Federal and State government. Such a restructuring of responsibilities, particularly where it involves the areas of income maintenance, should not be approved without analysis of the likely results and without a strong national commitment to the fulfillment of these responsibilities.

Our watch stone is that it is more important to assure that a responsibility will be performed than to be able to attribute blame clearly for its nonfulfillment. If these things have a meaning in American society, then they must be performed and if they do not have a meaning, they should be eliminated.

FISCAL DISPARITIES

Third, we believe that we must, as a part of the New Federalism, address the question of fiscal disparities among States and localities and must do it in a major way.

Mr. Chairman, I would submit to you that the fiscal disparities between States and localities is a problem of critical concern which has grown just enormously since the time that you were at the local level. We often get provincial in our discussions, particularly around such things as severance taxes and the cost of fuels to support both our city operations and the cost to our citizens and we in Ohio, for example, would feel very strongly that we are paying very dearly to support good programs in many of the energy-producing States, but we are paying more than our fair share in reaping too little from it. This is an area which could sharply divide the Nation, in our opinion.

Mr. Chairman, I have tried to be as brief as possible and at the same time I apologize for the length of the remarks.

Chairman DOMENICI. Thank you very much, Mayor.

PREPARED STATEMENT OF TOM MOODY, MAYOR, COLUMBUS, OHIO

Mr. Chairman and Members of the Committee. I am Tom Moody, Mayor of Columbus, Ohio, and past president of the National League of Cities. NLC, as you know, represents about 15,000 cities in Washington, both direct members and members of 48 state municipal leagues. It is a pleasure to be with you today to testify on the President's fiscal year 1983 budget as it affects aid to local governments.

This is not a particularly good time for states and local governments across the country. Last year, as you know, federal aid to states and localities was cut sharply, continuing the trend set in the latter years of the Carter Administration; high interest rates forced some cities to defer borrowing and raised costs for all; and the recession that began last summer added to the Nation's unemployment rolls and simultaneously reduced state and local revenues.

While there have been beneficial developments for states and localities in the past year (less regulation, fewer mandates, and a generally less prescriptive administration of programs by the Reagan Administration), unfortunately we appear to be in for a continuation of current trends. More budget cuts are on the way, high interest rates are still with us, and the recession continues to deepen. As you know, national unemployment now stands at 8.8 percent and is higher in several of our industrial states.

On February 28, NLC's Board of Directors met in Washington to deal with these serious problems. Today I would like to set forth our priorities for you.

THE ECONOMY

Although NLC usually focuses on funding for specific urban programs, clearly this year the economy is our first priority. Simply stated, nothing could help cities over their immediate financial problems and enable them to provide needed public services more than an end to our current economic problems and the beginning of a sound recovery. Yet it is clear that current and forseeable developments promise just the opposite.

An unprecedented combination of huge tax cuts, extraordinary increases in defense spending, continuing rapid growth in entitlement programs, and high interest rates is driving the budget deficit to dangerous levels. The projected deficits for fiscal years 1983-1985 ensure a tight money policy by the Federal Reserve Board which, in turn, ensures a less-than-satisfactory rate of economic growth resulting from the tax cuts. The task is clear, Mr. Chairman, budget deficits must be reduced, gradually but surely, if the conflict between expansionary fiscal policy and tight money is to be avoided.

This analysis of our problems is meant in a bipartisan spirit. Our economic problems did not originate with any particular party or President; and, in any event, it would be foolhardy to levy blame at this point. What is paramount is the need to deal with our problems now, not as Republicans or Democrats but as concerned Americans.

Consequently, we recommend four policies to deal with our economic problems:

First, we urge the Fed to ease up modestly on its very restrictive monetary policy. We are in no way urging a loose money policy which would surely result in a resurgence of inflation. We simply urge the Fed to ease up modestly, permitting money growth at the upper end of its 1982 targets. Such a policy would help end the current recession, help ailing industries, such as the housing and automobile industries, reduce federal borrowing costs, and reduce the cost of essential state and local borrowings.

Second, the budget urgently needs additional revenues over the next three fiscal years. We believe that Congress should suspend the 1983 tax cut now and decide early next year whether and to what extent economic conditions justify its reinstatement. This action would reduce the budget deficit by $9 billion in FY 1983 and by $37 billion in FY 1984. In our view, no other single action to reduce the deficit would have such a dramatic impact on the sagging confidence of the Nation's financial community.

We also believe that Congress should make a determined effort to raise more revenues through the tax structure. The "all savers" certificate, which has diverted funds from the municipal credit market without helping the housing industry, should be allowed to expire at the end of this year. And Congress should sharply revise the rules permitting the leasing of tax credits to assure that the benefits accrue only to those making new investments in plant and equipment. In addition, we support controls on the use of industrial revenue bonds.

Third, the phenomenal growth in defense spending should be slowed down. During FY's 1983-1985, the Administration projects a 9.8 percent annual real growth in defense. We believe this can reasonably be reduced to 7 percent annually--resulting in budget authority reductions of $14.1 billion in FY 1983, $8.9 billion in FY 1984, and $19.5 billion in FY 1985, and outlay reductions of $15-20 billion over this period. There is no reason why the Pentagon should not be required to choose among its highest weapons priorities and implement better management and efficiency techniques; every other sector of our society is being asked to do the same and, unlike the Pentagon, from dwindling resources.

And fourth, we must slow down the growth of entitlement programs. We recommend a temporary across-the-board cut in cost-of-living increases--limiting increases to 75 percent, rather than 100 percent, of the CPI during FY's 1983-1985. This would spread funding reductions fairly among all income classes, producing savings of $1 billion in FY 1983, $4.9 billion in Fy 1984, and $9.6 billion in FY 1985.

We know it is difficult for many to go along with this recommendation, covering as it does social security retirees as well. I can only say that an increase of 75 percent of CPI is not cruel and inhuman at a time when many in our workforce are forgoing CPI adjustments altogether in an effort to save jobs and improve the financial health of their companies. The alternative to this recommendation is to concentrate budget cuts on AFDC and medicaid and food stamp recipients, which I suggest would be much more difficult to justify after cuts last year as well.

Actually, none of these recommendations is very easy for you to agree to. But this Committee, together with its counterpart in the House, must lead the way. Only you recognize fully the potentially disastrous results for our economy if dramatic action along these lines is not taken.

THE BUDGET FOR URBAN PROGRAMS

Let me now turn to the President's budget as it deals directly with urban programs. This year the budget for state and local programs is better than last year's, but the trend continues sharply downward. If the President's budget is approved as submitted, federal grants to states and localities will decline, in just two years, from $106 billion to $65 billion. We believe that we are bearing an unfair share of the burden.

Five of our major program priorities are spared further budget cuts in FY 1983--general revenue sharing, community development block grants and UDAG, mass transit capital grants, and EPA wastewater treatment grants. We commend the President for his recommendations in these areas. We are very disturbed however, at the treatment of other key programs, particularly over the inevitable impact of further cuts on those who can least afford reductions in services. For example,

- housing assistances would be cut sharply, with virtually no new construction despite very low vanancy rates in many cities, and substantial cuts in public housing operating subsidies despite continuing cost increases which cannot be passed on to low-income tenants;
- mass transit operating assistance would be cut by 40 percent from $1 billion to $640 million, making it that much more difficult for those of lower income, often without cars, to reach their jobs throughout the metropolitan area;
- employment training assistance would be cut by about $500 million, from $2.3 billion to $1.8 billion, reducing the amount of training and retraining that are so urgently needed today because of the recession and changing jobs and skill requirements; and
- social services programs, including the low-income energy assistance program, would be cut sharply once again, reducing the level of services to the neediest in our communities.

We do not believe these reductions can be justified. The poor and working poor were hit hard by last year's budget cuts and must be spared further cuts in services. Consequently, NLC asks for a moratorium on further cuts in these state and local programs. We believe that aid to states and localities should be held at current FY 1982 spending levels.

THE NEW FEDERALISM

Finally, Mr. Chairman, let me comment briefly on the President's far-reaching proposals to alter the existing federal, state, and local intergovernmental system. We need not agree fully with it to recognize that, if approved by the Congress, it would represent the most fundamental change in the federal system since the New Deal.

We plan to make our recommendations on the proposal in May. However, we want to urge several critical concerns on you as you begin debate on this proposal.

First, your actions on the FY 1983 budget and "new federalism" proposal should be separate and distinct. Budget actions have an immediate importance for us; the federalism proposal is of extraordinary long-term significance, no matter what level of funding is agreed to for affected programs in the FY 1983 budget.

Second, very careful consideration must be given to the proposed split of responsibilities between federal and state governments. Such a significant restructuring of responsibilities, such as that involved in the area of income maintenance, should not be approved without analysis of the likely results and without a strong national commitment to the fulfillment of these responsibilities. It is more important to assure that a responsibility will be performed than to be able to attribute blame clearly for its non-fulfillment.

And third, fiscal disparities among states and localities must be addressed. Again, it is far more important that states and localities have and exercise the fiscal capacity to meet a responsibility than it is to be able to blame them for failing to do so.

There are many important questions to be asked and answered in this area. We will be doing so in the next two months and will, of course, share our recommendations with you.

Thank you.

NATIONAL LEAGUE OF CITIES PRIORITIES - 1982

(Adopted by NLC's Board of Directors February 28, 1982)

Overview

The Nation's cities enter 1982 facing severe financial problems. In 1981 Federal aid to states and local governments was sharply reduced, affecting cities directly and reducing the ability of state to provide needed assistance; high interest rates raised borrowing costs for all cities, forcing many to defer going to the market altogether; the national recession, which began in the late summer of 1981 and continues today, added to unemployment rolls and further reduced local revenues; and these problems became more severe at a time of growing agreement that our public infrastructure of roads, bridges, transit facilities, and water and sewerage works was in rapid decline, jeopardizing the national economic revitalization effort. This effort is also being undermined by the fact that too much of the Nation's human capital is unprepared to enter the job market, and that housing problems are now so widespread that they are a major deterrent to full economic recovery.

The President's FY 1983 budget continues the economic recovery program adopted last year; proceeds with large increases in defense spending and reductions in domestic program; and embarks upon an ambitious and comprehensive effort to reform the federal system through a sharp division of responsibilities between the national and state governments.

The National League of Cities continues to support the goals of revitalizing the Nation's economy and improving the operation and effectiveness of the federal intergovernmental system. We reaffirm our pledge to work with the Administration and the Congress to revive the Nation's economy and to assure a balanced and healthy federal system.

We believe, however, that certain policy changes are needed in 1982 if these goals are to be attained:

- First, to assure the success of the economic revitalization program, action must be taken to deal with the conflict between tight money policy and expansionary fiscal policy;

- Second, to enable states and local governments to maintain essential public infrastructure and services to their citizens, adequate resources must be made available to them; and

- Third, to strengthen the Nation's competitiveness in international markets, it is essential that a national employment policy be developed that includes investment in our human resources, consistent with our investment in physical plant and new technology.

Finally, we believe the President's federalism proposals deserve the most serious consideration. NLC is working with the Administration and Congress in developing the details of implementing legislation and plans to review and consider alternative federalism proposals and develop specific recommendations in this area at a special meeting of its Board of Directors in the near future.

The Economy

The combination of tax cuts, increases in defense spending, continued rapid growth of entitlement programs, and high interest rates is driving the federal budget deficit and the total national debt to dangerous levels. The projected deficits for Fiscal Years 1983-1985 insure continuing high interest rates that will make it extremely difficult to attain the strong economic recovery that is the goal of current policies. What the economy requires is a gradual but firm approach that reduces the deficit to levels that will avoid the conflict between economic recovery and tight money policies. To achieve this goal, NLC recommends the following policies:

Less Restrictive Monetary Policy. In 1981 monetary growth for the year as a whole was below the Federal Reserve Board's restrictive targets. A modest easing of monetary restraint may help to hasten the end of the current recession, aid ailing industries such as the automobile and housing industries, reduce federal borrowing costs, and provide needed help for essential local borrowings.

Additional Revenues. Additional revenues in Fiscal Years 1983-1985 will help substantially to reduce the budget deficit. We believe that Congress should suspend the 10 percent tax cut scheduled for July 1983 and decide early next year whether and to what extent economic conditions warrant its reinstatement. Furthermore, we urge Congress to eliminate wasteful and obsolete tax loopholes, including the selling of tax credits and the "all savers" certificate.

Slower Growth in Defense Spending. During Fiscal Years 1983-1985 defense spending is budgeted to increase by nearly 10 percent in real terms, following a substantial increase in FY 1982. Over a six-year period, Fiscal Year 1982-1987, three of every five new tax dollars will be needed to finance increases in defense spending. The share of the budget devoted to defense over this period will rise from about 28 percent in FY 1982 to 37 percent in FY 1987. In FY 1983, the increase in defense spending will exceed cuts in domestic programs by about one third.

NLC believes that such phenomenal growth in defense spending, a principal cause of budget deficits, must be modestly restrained and thoroughly scrutinized. We recommend that annual growth in defense spending be reduced to about 7 percent in real terms, an unprecedented rate of growth in peacetime, saving between $15 and 20 billion during the Fiscal Year 1983-85 period. Such modest reductions can be made without in any way endangering or jeopardizing the President's commitment to modernize our defense forces.

Slower Growth Instead of Cuts in Entitlement Spending. The budget proposes further reductions in entitlement programs, projecting cuts of $8.1 billion in the medicare, medicaid, food stamps, and AFDC programs. NLC believes that these additional cuts would place too heavy a burden on poor and working poor families. Programs which provide assistance to the poor, whether they are elderly, children, the disabled, or the long-term unemployed, should not bear a disproportionate share of funding reductions. Furthermore, such cuts should not create disincentives to work or impose new fiscal burdens on state and local governments. Instead, we urge a temporary reduction in cost-of-living adjustments for all entitlement programs indexed to the Consumer Price Index, through legislation providing for a 75 percent of CPI adjustment for such programs during Fiscal Years 1983-1985.

Human Capital Investment Program. A human capital investment program must be established as part of a strong national employment policy to develop the human capital potential of our Nation. Such a program should include employment training to address the remedial, job entry, job retraining, and displaced worker training needs of our people. The private sector, including both business and labor, must be direct partners in this effort. The Federal Government should provide effective incentives for the private sector to invest in efforts to address these training needs. Local governments are committed to fulfilling their responsibilities in this partnership.

Adoption of all of these policies relating to the economy would restore needed confidence in our economic policies by reducing budget deficits during Fiscal Years 1983-1985, thus permitting monetary policy to support and facilitate the Nation's economic recovery.

The Budget for Programs Affecting Cities

Federal aid to states and localities continues to decline sharply. If the President's FY 1983 budget is approved, federal grants will decline from $105.8 billion in FY 1981 to $65.2 billion in FY 1982. A large portion of this deep cut will be in programs that directly benefit cities and their residents. We believe that states and localities are bearing an unfair share of the burden of restraint in federal spending, and call for a moratorium on further cuts in state and local programs.

NLC commends the President for proposing to fund key urban programs -- general revenue sharing, community development block grants and UDAG, mass transit capital grants, and wastewater treatment construction grants -- at current FY 1982 levels. Depsite extremely difficult budget problems, the Administration has demonstrated an understanding of and commitment to the important services provided under these programs.

We are greatly concerned, however, over cuts proposed in other programs that directly affect those who can least afford reductions in services, and that are essential prerequisites for sustained economic growth:

- in housing for those of low and moderate income assisted by HUD's section 8 and public housing programs,
- in mass transit operating assistance which provides links to jobs and services particularly for those who do not or cannot operate automobiles,
- in highway assistance for cities which is critical for the development and maintenance of the infrastructure upon which the Nation's economic recovery depends,
- in CETA employment training programs for the unemployed and underemployed who need training in basic skills and retraining for better job opportunities; employment training programs should be funded at not less than current levels and funds should be allocated to units of general purpose local government through a national formula,
- in low income energy assistance which helps the poor cope with extraordinary increases in heating and cooling costs, and
- in social services programs, including programs serving refugees, which provide a wide range of important services for the neediest in our communities.

NLC is particularly concerned over the budget's treatment of environmental protection activities and the development of energy resouces. The statutory framework for environmental protection requires an effective EPA for research and development, national standard-setting, and enforcement activities. EPA's responsibilities in these areas are growing; yet it continues to fall behind in meeting statutory deadlines for standard-setting and in its enforcement responsibilities. States and cities lack the resources to take over these responsibilities. Therefore, EPA funding in FY 1983 should not be cut below FY 1982 levels.

We also believe that there must be a more balanced approach to meeting the Nation's energy needs at the lowest cost to consumers and businesses. The budget proposes sharp cuts in programs and business tax credits for conservation and renewable energy sources, while proposing increases or only modest reductions in commercial nuclear development and oil and gas development. Since conservation and renewable energy sources represent cost-effective approaches to solving our energy problems, NLC urges Congress to continue funding for programs in these areas at FY 1982 levels.

We urge the Congress to maintain funding for all of these important services and activities at FY 1982 levels.

The New Federalism

The National League of Cities believes that the President's proposal to restructure the federal system is a bold and significant initiative, the most far-reaching alteration of federal and state relationships since the New Deal. NLC plans to work with the Administration and the Congress in drafting specific proposals. To facilitate discussion, NLC urges the Administration and the Congress to consider the FY 1983 budget as separate and apart from consideration of the framework of the New Federalism proposal.

For local governments, this proposal entails both important benefits and serious risks. The benefits include a reasonable transition period which provides time for needed adjustments; guaranteed "pass throughs" of funds for direct federal-local programs for a specified period; and certainty of funding for major urban programs, such as general revenue sharing and community development block grants, again for a specified period.

At the same time, local governments could be subject to substantial risks during the latter half of the transition period and beyond. These risks involve primarily the treatment of local program needs by states after the initial guaranteed "pass through" period. We ask the Administration to actively consider the following questions which express municipal concerns. To what extent will states abandon local programs as a result of their own expanding state responsibilities? And to what extent will equitable state-local distribution formulas be developed after the termination of the federal programs to be turned back?

The proposal raises many other important questions: does it establish a proper division of governmental responsibilities in the area of income maintenance? should the Federal Government retain residual or shared responsibility in any of the programs being turned back? if state tax effort is to be relied on to finance certain program areas, should the proposal not address the problem of fiscal disparities among the states? should there be a requirement that states maintain a certain level of effort in key program areas? if, as may be inevitable, states will tend to deal with their own expanding responsibilities in the later years of the transition period, should not states be required to strengthen local tax and fiscal capacity to sustain an adequate and appropriate level of services? to what extent will the proposals merely substitute state bureaucracy for federal bureaucracy?

Some of these questions will be answered during the development of implementing legislation being prepared by the Administration; others by alternative proposals such as that recently recommended by Senator David Durenberger of Minnesota. It is clear that a full and vigorous discussion of all alternatives will be undertaken before a consensus can be reached.

NLC is working with the Administration on issues of concern to cities raised by the President's federalism proposal. After consideration by our policy committees, this Board will analyze the President's proposal, review and consider alternative proposals, and develop specific recommendations in this area at a special meeting to be held this spring.

Non-Budget Priorities

NLC urges reauthorization of the following major programs and activities that expire in 1982:

- the Comprehensive Training and Employment Act: retaining the existing prime sponsor system, with full participation of local elected officials, rather than the Administration's proposed block grant to states; increasing involvement of the private sector in providing training and determining jobs for which training is to be available; and maintaining current eligiblity criteria for training participants;
- the Voting Rights Act, as passed by the House of Representatives: extension for 10 years to insure elimination of governmental practices that have the effect of denying fundamental voting rights;
- the Clean Air Act: retaining essential provisions for protection of human health and all deadlines, sanctions, and emission control requirements;
- the Clean Water and Safe Drinking Water Acts: including establishing a groundwater protection strategy and new programs, such as a water bank to finance activities to protect and increase water supply;
- the Surface Transportation Act of 1978, providing aid for highways and mass transit programs, and the Airport Development Assistance Program for cities of all sizes, including consideration of higher aviation user fees; and
- the Public Works and Economic Development Act of 1965, providing economic development assistance to localities with high unemployment.

NLC urges enactment of effective fair housing enforcement amendments, an urban enterprise zone program, and support for technological innovation to improve productivity; and opposes federal laws and regulations that preempt state and local authority over cable services, hazardous materials, truck sizes and weights, and airport noise. In addition, we urge enactment of legislation to relieve municipalities from recent judicial decisions expanding municipal liability and subjecting municipalities to the anti-trust laws; municipalities should be specifically exempted from anti-trust laws.

Chirman DOMENICI. Mr. Delbello?

STATEMENT OF ALFRED B. DEL BELLO, COUNTY EXECUTIVE, WESTCHESTER COUNTY, N.Y.

Mr. DELBELLO. Thank you, Mr. Chairman.

As I indicated, I am representing the National Association of Counties and hold certain particular positions in that organization.

The National Association of Counties effectively represents 90 percent of the population of this country and has within its membership, counties in the rural nature as small as 5,000 people, up to counties as urban and as large as 3 million population. Counties such as Westchester County, which are general purpose governments, executive form of government, are larger than a large number of State governments. It has been said that my own government is as large as the 12 or 13 governments in the States with responsibilities of health, welfare, medicaid, mental health, et cetera. So we have looked very carefully at what is occurring in the budget process this year.

MORE CUTBACKS ARE NOT FAVORABLE

Three years ago, the National Association of Counties passed a resolution taking a very firm stand that it wanted to see a partnership develop between the States and all other locales of government to lead an effort to balance the Federal budget. As a result of that, we took a position that we are in favor of the 1982 cutbacks, most of them. The thrust was correct, to start moving back and to limit the Federal expenditure levels. We, however, this year, take a very firm stand that we are not in favor of any more cutbacks, program budget cutbacks.

The main reason for that is that we think some time has to be given to us to adjust to the cuts that are already made and to fully analyze the impact of those cuts in budgets and services. The rapidity with which it is happening could create a major dislocation within our local service delivery systems.

Last year, counties sustained over a 15-percent reduction in Federal funding. The efforts that county governments made to maintain service levels desired by our citizens despite funding cutbacks were tremendous.

I would just use the example of Westchester County and what occurred in my county last year. When I prepared my budget, which is over $500 million, I cut $10 million of tax levy supported programs, which equals about $30 million of actual programing, and I proposed to raise property taxes 17-percent at the same time to balance the budget.

When our board of legislators, which is the opposite than me, they are conservative, Republican boards of legislature, looked at that much fat, they thought they would be able to support those cuts. When they opened up their public hearing process, they had the largest public hearing in the history of Westchester County, over 1,000 people, testifying at a hearing. They realized they could not sustain those cuts. They returned or replaced in my budget, $9 million of funds and erased our sales tax another half of a percent and kept the property taxes going up at a 17 percent increase.

What that demonstrated was that certain of these services which are proposed for elimination cannot be eliminated at the local level because they have become part of our social fabric. We dealt seriously with the issue of eliminating day care. I was prepared to fund it at half a million for the first time in the history of the county, to put county funds into it.

The board of legislators was prepared to eliminate it and put a million dollars of taxpayers money into it because it could not be torn out of our social fabric.

I think to some degree we are fooling ourselves, and we need the time to analyze where we are with the cuts that have been made.

IMPACT OF LAST YEAR'S CUTS

While the full impact of last year's cuts have not been totally realized, there is now a pervasive feeling among county governments that all of the fat has been eliminated, and we are going deeper than the bone.

Last year's cuts forced many counties to reduce employment, cut back on service hours and services such as day care assistance, and postpone badly needed investment in infrastructure repairs.

Many counties have had to raise property or sales taxes or both, as did my county, which did both. This cost shifting is viewed disfavorably by citizens who receive, in return, a cutback rather than increase in services. The proposed fiscal 1983 cuts would only make things worse.

Counties are facing additional burdens as they strive to support the needy who are now ineligible for Federal AFDC and food stamps.

Many counties foresee difficulty in maintaining the fiscal viability of county hospitals which provide services to many poor people who are ineligible for medicare and medicaid. Further reductions in revenues would seriously and negatively impact on the ability of counties to provide basic and vital services to citizens for the first time in over a decade. Westchester County has had an increase in the percentage of individuals below the poverty line.

Two weeks ago, over 1,400 county officials from across the Nation came to Washington for NACO's annual legislative conference. The recordbreaking attendance at this conference reflected the depth of interest and concern expressed by county officials over the President's proposed fiscal 1983 budget.

While broad support was given to the overall goals of increasing local and State government's responsibility and authority for domestic programs, this support was dampened by the concern that local governments may not have adequate and fair funding resources to meet these responsibilities as envisioned. NACO is aware, also, that the cuts approved for fiscal 1983 will affect the total dollars in the trust fund proposed under the President's New Federalism. If the base is low, States and counties will pick up under-funded programs and have to make up the difference.

MORATORIUM CALLED FOR ON BUDGET REDUCTIONS

After consideration of the impact of last year's budget cuts and the potential impact of additional cuts, the board of directors of

NACO adopted a resolution calling for a moratorium on Federal budget reductions in domestic programs for fiscal year 1983 affecting local and State government.

This resolution will serve as the official policy of NACO on the fiscal 1983 budget. The board further resolved that the devolution of responsibility for programs to local and State governments must be jointly determined and paced to insure a stable and acceptable realinement of our Federal system.

Such a realinement must reserve and should enhance national equity in income maintenance programs. The board of directors reaffirmed NACO's position that income security programs should be the responsibility of the Federal Government. The National Governors Association also supports this position.

Full funding of general revenue sharing and the payments-in-lieu-of-taxes program continues to be a top priority of NACO's. We are pleased that the President has requested full funding for GRS in fiscal 1983 at $4.6 billion and urge this committee to honor that request. We must object, however, to the administration's proposed $45 million funding level for PILT in fiscal 1983.

This represents a reduction of more than 50 percent from fiscal 1982. We urge your committee to provide $110 million for PILT in the first budget resolution for fiscal 1983 to compensate over 1,500 counties for the fiscal disparity created by Federal ownership of lands.

EMPLOYMENT PROGRAMS CAN PLAY IMPORTANT ROLE

We urge Congress, too, to give strong support to programs which will increase employment and training opportunities for unskilled individuals as an alternative to massive Federal subsidy of unemployment.

Employment programs can play an important role in strengthening the economy by lessening the fiscal burden of rising welfare costs. Before addressing in detail some specific aspects of the President's proposed budget for fiscal 1983, I would like to discuss NACO's response to the President's New Federalism initiative.

Senator BOSCHWITZ. Mr. Delbello, your statement is 20 pages long.

Mr. DELBELLO. I am not reading that statement, Senator. I am reading an abbreviated——

Senator BOSCHWITZ. You are not only reading the statement, you are adding to it as you go along. So that I, at least, in following that statement—and you seem to be reading it and then you are adding to it. We certainly want to include it in its entirety in the record, but we would appreciate some summation of your statement. ,

Mr. DELBELLO. Senator, this is an eight-page statemant that I am readinq from. It is an eight-page statement that does abbreviate and take the first sections of that statement, which I would suggest is far less than other speakers have spoken on the New Federalism, and we have in this New Federalism section specific recommendations that we would like this Budget Committee to deal with. They are recommendations that have been adopted by over 100 counties at a conference a couple of weeks ago. We think they are important and I wish that there would be a couple of Senators here to hear it.

I will go on just to that and strike everything else in my statement, with due regard to the time constraints that we are under.

Senator BOSCHWITZ. Well, if your statement is only 8 pages long, apparently encompassing the entirety of the first 3 pages, then I certainly suggest that you go right ahead with the entirety of your statement, but the one that I have before me is 19 pages.

Mr. DELBELLO. That is the one that I was filing, yes.

Senator BOSCHWITZ. And you wish this one to be included in the record in its entirety?

Mr. DELBELLO. Yes. I would like it entered in the record in its entirety. We do go into specific program areas, paragraph by paragraph, making recommendations on specific Federal programs that appear in the budget. We think they would be helpful to the committee to have our views known.

I do not intend to read those. I stopped the statement well in advance of getting to those specific recommendations.

Senator BOSCHWITZ. I have read your statement. I apologize for the absence of my colleagues. This has been a relatively full week; I am afraid it has tired some of them out, if that is a mild way of putting it.

NEW FEDERALISM

Mr. DELBELLO. Let me deal with the New Federalism issue and present at least to yourself, the specifics of what we are recommending in a resolution adopted by the National Association of Counties.

I would just read the headings so that the balance of it could be read for the record.

Senator BOSCHWITZ. Let me also say that Senators, even though they may be absent, will be briefed about your statement.

REQUIRE STATE CONSULTATION IN NEW PROGRAM AREAS

Mr. DELBELLO. Yes. That is why I will just read these headings now.

The National Association of Counties recommends that as part of the New Federalism that there should be a recognition of the familiarity, which is a way of saying the programs that are being run by current levels of government, they have a familiarity and a competency that should be recognized in the law. Indeed, there should be State consultation required in certain new program areas before they can be incorporated and introduced into law.

Senator BOSCHWITZ. Is there such State consultation now?

Mr. DELBELLO. It is an informal process. It is not required. It is expensive. There are lobbying efforts that are undertaken by the local government, but we think that can be structured much more carefully, particularly as the turnback occurs, the consultation should be required in a formal way before it is institutionalized at the State level.

We are particularly interested in meaningful consultation with the States as it related to new State levies imposed to replace vacated Federal taxes and how they relate to program responsibilities and service deliveries.

Disparities both in fiscal resources and responsibility between the various intrastate governments.

Management and administrative practices in the delivery of public services and maintenance of effort for State funding for current services.

We then go on to express our concern for the hold-har-less provisions that are currently being negotiated with the White House.

INCOME MAINTENANCE SHOULD REMAIN A FEDERAL RESPONSIBILITY

For the protection against administrative costs, siphoning off, that can occur if that is not carefully watched; the resource match which is really the President's dollar for dollar guarantee that there would be no loss and it was not a bungling of the Federal budget. Of course, one of the most important provisions that we take is that income maintenance remain a Federal responsibility.

In that area, we probably have the greatest divergence of views with the President at this time. But welfare being a county responsibility in most States, and State responsibility in the balance of States, experience tells us that this is running contrary to what we believe to be the constitutional requirements of the Federal Government, our ability to maintain these programs and the social structure and responsibilities that have been established over 50 years of Federal responsibility for the poor.

PROPER UTILIZATION OF THE FEDERAL TAX BASE

We also make specific reference to the Federal tax base and its proper utilization for these programs.

I have already indicated our concern for general revenue sharing, that that remain in place, and it has been referred to already that the standards in regulations that become mandates should be diminished in the process significantly.

I have submitted the written testimony in length, and I think that that testimony provides a great deal of detail on specific program areas.

Thank you.

Senator BOSCHWITZ. Thank you, Mr. DelBello.

PREPARED STATEMENT OF ALFRED B. DELBELLO, COUNTY EXECUTIVE, WESTCHESTER COUNTY, N.Y.

GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I AM ALFRED B. DELBELLO, COUNTY EXECUTIVE OF WESTCHESTER COUNTY, NEW YORK. I HAVE BEEN WESTCHESTER COUNTY EXECUTIVE FOR NINE YEARS AND AM NOW IN MY FIRST YEAR OF MY THIRD TERM. PRIOR TO MY ELECTION TO THIS POSITION, I SERVED FROM 1969-1973 AS MAYOR OF THE CITY OF YONKERS WHICH IS THE FOURTH LARGEST CITY IN NEW YORK STATE. I AM CHAIRMAN OF THE NATIONAL ASSOCIATION OF COUNTIES URBAN AFFAIRS TASK FORCE AND OF THE NATIONAL COUNCIL OF ELECTED COUNTY EXECUTIVES. I AM ACCOMPANIED TODAY BY JON WEINTRAUB, ASSOCIATE DIRECTOR OF THE NATIONAL ASSOCIATION OF COUNTIES.

I AM HERE TODAY ON BEHALF OF THE COUNTIES THAT COMPRISE THE MEMBERSHIP OF THE NATIONAL ASSOCIATION OF COUNTIES (NACO). THE MEMBER COUNTIES OF NACO REPRESENT 90% OF OUR NATION'S POPULATION AND RANGE FROM SMALL RURAL COUNTIES WITH POPULATIONS OF LESS THAN 5,000 TO DENSELY POPULATED URBAN COUNTIES WITH POPULATIONS OVER 1 MILLION. THESE COUNTIES PROVIDE THEIR CITIZENS WITH A WIDE RANGE OF SERVICES FROM ROAD MAINTENANCE TO FIRE PROTECTION TO HEALTH CARE.

THE MEMBERSHIP OF NACO HAS BEEN CONCERNED FOR SOME TIME ABOUT THE SIZE OF THE FEDERAL BUDGET AND THREE YEARS AGO FORMALLY ADOPTED A RESOLUTION URGING FEDERAL, STATE AND LOCAL GOVERNMENTS TO FORM A PARTNERSHIP AND IMMEDIATELY BEGIN A SINCERE EFFORT LEADING ULTIMATELY TO A BALANCED FEDERAL BUDGET. TO THIS END, THE NATIONAL ASSOCIATION OF COUNTIES SUPPORTED THE FIRST ROUND OF BUDGET CUTS RECOMMENDED BY THE ADMINISTRATION LAST MARCH FOR FISCAL 1982 BUT OPPOSED ANY ADDITIONAL CUTS UNTIL THE IMPACT OF THE FIRST ROUND COULD BE FULLY ASSESSED. NACO CONTINUES TO ENDORSE THE GOAL OF A BALANCED BUDGET, HOWEVER, WE DO NOT FEEL THAT THAT SHOULD BE ACHIEVED AT THE EXPENSE OF FURTHER REDUCING FUNDING FOR DOMESTIC PROGRAMS IN FISCAL 1983. LAST YEAR, COUNTIES SUSTAINED OVER A 15% REDUCTION IN FEDERAL FUNDING. THE EFFORTS THAT COUNTY GOVERNMENTS MADE TO MAINTAIN SERVICE LEVELS DE-

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*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENTS; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

SPITE FUNDING CUT BACKS WERE TREMENDOUS. WHILE THE FULL IMPACT OF LAST YEAR'S CUTS HAVE NOT BEEN TOTALLY REALIZED, THERE IS NOW A PERVASIVE FEELING AMONG COUNTY GOVERNMENTS THAT ALL OF THE "FAT" HAS BEEN ELIMINATED. LAST YEAR'S CUTS FORCED MANY COUNTIES TO REDUCE EMPLOYMENT, CUT BACK ON SERVICE HOURS AND SERVICES SUCH AS DAY-CARE ASSISTANCE AND POSTPONE BADLY NEEDED INVESTMENT IN INFRASTRUCTURE REPAIRS. MANY COUNTIES HAVE HAD TO RAISE PROPERTY OR SALES TAXES, A POLICY VIEWED DISFAVORABLY BY CITIZENS WHO RECEIVE, IN RETURN, A CUTBACK RATHER THAN INCREASE IN SERVICES. COUNTIES ARE FACING ADDITIONAL BURDENS AS THEY STRIVE TO SUPPORT THE NEEDY WHO ARE NOW INELIGIBLE FOR FEDERAL AFDC AND FOOD STAMPS. MANY COUNTIES FORSEE DIFFICULTY IN MAINTAINING THE FISCAL VIABILITY OF COUNTY HOSPITALS WHICH PROVIDE SERVICES TO MANY POOR PEOPLE WHO ARE INELIGIBLE FOR MEDICARE AND MEDICAID. FURTHER REDUCTIONS IN REVENUES WOULD SERIOUSLY AND NEGATIVELY IMPACT ON THE ABILITY OF COUNTIES TO PROVIDE BASIC AND VITAL SERVICES TO CITIZENS.

TWO WEEKS AGO, OVER 1400 COUNTY OFFICIALS FROM ACROSS THE NATION CAME TO WASHINGTON FOR NACO'S ANNUAL LEGISLATIVE CONFERENCE. THE RECORD-BREAKING ATTENDANCE AT THIS CONFERENCE REFLECTED THE DEPTH OF INTEREST AND CONCERN EXPRESSED BY COUNTY OFFICIALS OVER THE PRESIDENT'S PROPOSED FISCAL 1983 BUDGET (AND FEDERALISM INITIATIVES). WHILE BROAD SUPPORT WAS GIVEN TO THE OVERALL GOALS OF INCREASING LOCAL AND STATE GOVERNMENT'S RESPONSIBILITY AND AUTHORITY FOR DOMESTIC PROGRAMS, THIS SUPPORT WAS DAMPENED BY THE CONCERN THAT LOCAL GOVERNMENTS MAY NOT HAVE ADEQUATE FUNDING RESOURCES TO MEET THESE RESPONSIBILITIES. NACO IS AWARE, ALSO, THAT THE FUNDING LEVELS APPROVED FOR FISCAL 1983 WILL AFFECT THE TOTAL DOLLARS IN THE TRUST FUND PROPOSED UNDER THE PRESIDENT'S "NEW FEDERALISM".

AFTER CONSIDERATION OF THE IMPACT OF LAST YEAR'S BUDGET CUTS AND THE POTENTIAL IMPACT OF ADDITIONAL CUTS, THE BOARD OF DIRECTORS OF NACO ADOPTED A RESOLUTION CALLING FOR A MORATORIUM ON FEDERAL BUDGET REDUCTIONS IN DOMESTIC PROGRAMS FOR FISCAL YEAR 1983 AFFECTING LOCAL AND STATE GOVERNMENT. THIS RESOLUTION WILL SERVE AS THE OFFICIAL POLICY OF NACO ON THE FISCAL 1983 BUDGET. THE BOARD FURTHER RESOLVED THAT THE DEVOLUTION OF RESPONSIBILITY

FOR PROGRAMS TO LOCAL AND STATE GOVERNMENTS MUST BE JOINTLY DETERMINED AND PACED TO ENSURE A STABLE AND ACCEPTABLE REALIGNMENT OF OUR FEDERAL SYSTEM. SUCH A REALIGNMENT MUST PRESERVE AND SHOULD ENHANCE NATIONAL EQUITY IN INCOME MAINTENANCE PROGRAMS. THE BOARD OF DIRECTORS REAFFIRMED NACO'S POSITION THAT INCOME SECURITY PROGRAMS SHOULD BE THE RESPONSIBILITY OF THE FEDERAL GOVERNMENT.

FULL FUNDING OF GENERAL REVENUE SHARING AND THE PAYMENTS-IN-LIEU OF TAXES PROGRAM CONTINUES TO BE A TOP PRIORITY OF NACO'S. WE ARE PLEASED THAT THE PRESIDENT HAS REQUESTED FULL FUNDING FOR GRS IN FISCAL 1983 AT $4.6 BILLION AND URGE THIS COMMITTEE TO HONOR THAT REQUEST. WE MUST OBJECT, HOWEVER, TO THE ADMINISTRATION'S PROPOSED $45 MILLION FUNDING LEVEL FOR PILT IN FISCAL 1983. THIS REPRESENTS A REDUCTION OF MORE THAN 50 PERCENT FROM FISCAL 1982. WE URGE YOUR COMMITTEE TO PROVIDE $110 MILLION FOR PILT IN THE FIRST BUDGET RESOLUTION FOR FISCAL 1983 TO COMPENSATE OVER 1500 COUNTIES FOR THE FISCAL DISPARITY CREATED BY FEDERAL OWNERSHIP OF LANDS. WE URGE CONGRESS, TOO, TO GIVE STRONG SUPPORT TO PROGRAMS WHICH WILL INCREASE EMPLOYMENT AND TRAINING OPPORTUNITIES FOR UNSKILLED INDIVIDUALS AS AN ALTERNATIVE TO MASSIVE FEDERAL SUBSIDY OF UNEMPLOYMENT. EMPLOYMENT PROGRAMS CAN PLAY AN IMPORTANT ROLE IN STRENGHTENING THE ECONOMY BY LESSENING THE FISCAL BURDEN OF RISING WELFARE COSTS. BEFORE ADDRESSING IN DETAIL SOME SPECIFIC ASPECTS OF THE PRESIDENT'S PROPOSED BUDGET FOR FISCAL 1983, I WOULD LIKE TO DISCUSS NACO'S RESPONSE TO THE PRESIDENT'S "NEW FEDERALISM" INITIATIVE.

ON FEBRUARY 22, NACO'S BOARD OF DIRECTORS PASSED THE FOLLOWING RESOLUTION ON THE PRESIDENT'S "NEW FEDERLISM" PROPOSAL: "THE NATIONAL ASSOCIATION OF COUNTIES (NACO) CONGRATULATES PRESIDENT REAGAN FOR INITIATING A REEXAMINATION OF THE ROLES AND RESPONSIBILITIES OF FEDERAL, STATE AND LOCAL GOVERNMENTS. WE CONTINUE TO STRONGLY SUPPORT THE CONCEPTS OF DECENTRALIZATION. WE PLEDGE OUR COMPLETE SUPPORT FOR THE GOALS OF PROVIDING CONTROL OF ESSENTIAL GOVERNMENT SERVICES, IN SO FAR AS POSSIBLE, AT THAT LEVEL OF GOVERNMENT MOST CAPABLE OF DELIVERING THEM. THIS POSITION IS BASED ON INCLUDING IN THE CONCEPT THOSE

BASIC ELEMENTS SET FORTH IN THE FOLLOWING DOCUMENT.

"NACo APPLAUDS THE PRESIDENT'S COMPROMISE IN THE FEDERALIZATION OF MEDICAID AND HIS WILLINGNESS TO DISCUSS FEDERAL ASSUMPTION OF OPTIONAL MEDICAID SERVICES. WE RECOGNIZE THE PRESIDENT'S GOOD FAITH EFFORT IN THIS REGARD, AND IN THE SAME SPIRIT, WE WILL CONTINUE TO WORK CLOSELY WITH THE ADMINISTRATION ON THE QUESTION OF INCOME MAINTENANCE. WE FURTHER APPRECIATE HIS SUPPORT FOR THE VARIOUS PROTECTIVE MECHANISMS FOR LOCAL GOVERNMENT SUCH AS PASS-THROUGH, HOLD-HARMLESS AND MAINTENANCE OF EFFORTS' PROVISIONS CONTAINED IN THE INITIATIVE.

"WE ARE PARTICULARLY SUPPORTIVE OF KEY ELEMENTS OF THE PRESIDENT'S DRAFT PROPOSALS INCLUDING CONTINUATION OF GENERAL REVENUE SHARING; RETURNING PROGRAMS' RESPONSIBILITIES TO STATE AND LOCAL GOVERNMENT TOGETHER WITH FINANCIAL RESOURCES NECESSARY TO MEET THE RESPONSIBILITIES; AND REDUCTION OF FEDERAL REGULATION.

"WE WELCOME THE PRESIDENT'S INVITATION TO NACo AND OUR SISTER ASSOCIATIONS OF ELECTED STATE AND LOCAL OFFICIALS TO ENTER INTO A DIALOGUE WITH THE ADMINISTRATION AND THE CONGRESS ON THE NEW FEDERALISM . WE WILL BE SUPPORTING THE FOLLOWING CONCEPTS IN THIS DIALOGUE.

"1. STRENGTHEN GENERAL PURPOSE GOVERNMENTS

ANY TRANSFER OF PROGRAM RESPONSIBILITY TO THE STATES SHALL RECOGNIZE AND PRESERVE THE ROLE OF GENERAL PURPOSE LOCAL GOVERNMENTS AS THE PRINCIPLE PUBLIC SERVICE DELIVERY UNITS. SUCH RECOGNITION SHOULD BE REFLECTED IN SUCH FORMS AS:

"A. MANDATORY PASS-THROUGH

FULL AND MANDATORY PASS-THROUGH OF FUNDS BY THE STATES SHOULD BE A PROCEDURAL SAFEGUARD IN ANY TURNBACK STRATEGY WHERE THE LOCAL GOVERNMENT IS REQUIRED TO CONTINUE SERVICES OF THE PROGRAM(S) TURNED BACK.

"B. PRESERVE EXISTING RELATIONS

PRESERVATION OF THE EXISTING FEDERAL-LOCAL FUNDING RELATIONSHIP FOR THE ENTITLEMENT, OR DIRECT FORMULA ALLOCATION, PORTION OF EXISTING GRANT PROGRAMS.

"C. FAMILIARITY

RECOGNITION OF CURRENT PARTICIPATION IN AND EXPERTISE GAINED BY LOCAL GOVERNMENT IN PROGRAMS IDENTIFIED FOR TURNBACK. THIS PRINCIPLE OF FAMILIARITY AND PRIOR USE IS SIGNIFICANT IN ANY TRANSFER PROGRAM.

"D. STATE CONSULATION

THE COMMITMENT BY THE STATES FOR MEANINGFUL CONSULTATION AND NEGOTIATION WITH THEIR LOCAL GOVERNMENTS; AND THE PRESERVATION OF EXISTING COOPERATIVE DECISIONMAKING RELATIONSHIPS ESTABLISHED IN MANY PROGRAMS PROPOSED TO BE TURNED BACK. WE ARE PARTICULARLY INTERESTED IN MEANINGFUL CONSULTATION WITH THE STATES AS IT RELATES TO:

- NEW STATE LEVIES IMPOSED TO REPLACE VACATED FEDERAL TAXES AND HOW THEY RELATE TO PROGRAM RESPONSIBILITY AND SERVICE DELIVERY.
- DISPARITIES, BOTH IN FISCAL RESOURCES AND RESPONSIBILITY, BETWEEN THE VARIOUS INTRASTATE GOVERNMENTS.
- MANAGEMENT AND ADMINISTATIVE PRACTICES IN THE DELIVERY OF PUBLIC SERVICES.
- MAINTENANCE OF EFFORT FOR STATE FUNDING FOR CURRENT SERVICES.

"E. HOLD-HARMLESS

HOLD-HARMLESS PROVISIONS SHOULD BE EMPLOYED WHERE THE CONTINUATION OF A SERVICE LEVEL IS REQUIRED, WHETHER BY LAW OR JUDICIAL DECISION.

"F. ADMINISTRATIVE COSTS

FEDERAL PROGRAMS AND FUNDING TURNED BACK TO THE STATES WHERE A LOCAL ROLE EXISTS SHOULD CONTAIN A STATUTORY REQUIREMENT CAPPING STATE ADMINISTRATIVE COSTS. WHERE THE STATE INTERJECTS ITSELF THROUGH THE IMPOSITION OF ADDITIONAL REQUIREMENTS, EITHER PROGRAM OR ADMINISTRATIVE, THERE SHOULD BE AN OBLIGATION ON THE PART OF THE STATE TO ADEQUATELY FUND THESE ADDITIONAL REQUIREMENTS. THIS REPRESENTS THE LONG-STANDING NACo PRINCIPLE THAT THE LEVEL OF GOVERNMENT WHICH MANDATES AN ACTIVITY SHOULD ACCEPT FUNDING LIABILITY.

"2. RESOURCE MATCH

NACo REITERATES ITS SUPPORT FOR THE RETURN OF RESPONSIBILITY AND AUTHORITY OVER FEDERAL ASSISTANCE PROGRAMS WHERE SUCH PROGRAMS ARE RETURNED WITH RESOURCES EQUAL TO THE COSTS OF THE PROGRAM RETURNED.

"3. INCOME MAINTENANCE

NACo MAINTAINS ITS POSITION THAT INCOME MAINTENANCE PROGRAMS, SUCH AS AFDC AND MEDICAID, SHOULD BE THE SOLE RESPONSIBILITY OF THE FEDERAL GOVERNMENT, WITH RESOURCES ADEQUATE TO MEET RISING COSTS.

"4. FEDERAL TAX BASE

WHERE FEDERAL REVENUES ARE PLEDGED TO FULLY FUND PROGRAMS AND RESPONSIBILITIES TRANSFERRED OR RETURNED TO GENERAL PURPOSE LOCAL GOVERNMENTS, THESE REVENUES SHOULD BE COMPOSED FROM A PERCENTAGE OF THE BASE OF THE FEDERAL INCOME TAX SO AS TO RECOGNIZE THE FISCAL DISPARITIES OF OTHER TAX SOURCES. THIS FUND SHOULD BE A GUARANTEED ENTITLEMENT TRUST NOT SUBJECT TO THE ANNUAL CONGRESSIONAL APPROPRIATIONS PROCESS, ON AN ONGOING BASIS BEYOND THE TRANSITION PERIOD.

"5. GENERAL REVENUE SHARING

WHERE APPROPRIATE, NACo SUPPORTS THE USE OF THE GENERAL REVENUE SHARING PROGRAM, ITS FORMULA, ALLOCATION SYSTEM AND REQUIREMENTS AS A REPRESENTATIVE MODEL IN DETERMINING FUND DISTRIBUTION PROGRAMS.

"6. REGULATIONS

CONSISTENT WITH THE OVERALL THRUST OF THE "NEW FEDERALISM", BASIC AND INTEGRAL ADMINISTRATIVE FUNCTIONS OF STATE AND LOCAL GOVERNMENT SHOULD REMAIN OR BECOME THE SOLE PROVINCE OF THOSE LEVELS OF GOVERNMENT TO LEGISLATE, REGULATE AND MANAGE. STATE AND LOCAL GOVERNMENT FLEXIBILITY SHOULD NOT BE IMPAIRED OR CIRCUMSCRIBED BY FEDERAL RESTRICTIONS OR REGULATIONS IN THESE BASIC POLICIES AND FUNCTIONS. ALL LEVELS OF GOVERNMENT SHOULD WORK TOWARD THE REDUCTION, SIMPLIFICATION AND SUNSET OF GOVERNMENT TO GOVERNMENT MANDATES."

OUR CONCERNS REGARDING PARTICULAR ISSUES IN THE FISCAL 1983 BUDGET RESOLUTION FOLLOWS BELOW:

GENERAL REVENUE SHARING

PRESIDENT REAGAN HAS REQUESTED FULL FUNDING FOR THE GENERAL REVENUE SHARING PROGRAM IN HIS FISCAL 1983 BUDGET PROPOSAL. UNDER THE BUDGET PROPOSAL, $4.6 BILLION IN FUNDING WOULD BE AVAILABLE FOR LOCAL GOVERNMENTS IN FISCAL YEAR 1983, THE LAST ENTITLEMENT PERIOD UNDER THE CURRENT AUTHORIZATION. SINCE ITS CREATION, NACo HAS BEEN GIVEN STRONG SUPPORT TO THE GENERAL REVENUE SHARING PROGRAM, AND WE APPLAUD THE PRESIDENT'S REQUEST FOR FULL FUNDING. WE URGE THAT THIS PROGRAM BE MAINTAINED AFTER ITS CURRENT AUTHORIZATION EXPIRES, EITHER THROUGH A SEPARATE REAUTHORIZATION OR INCLUSION IN THE PROPOSED $28 BILLION TRUST FUND OF THE PRESIDENT'S "NEW FEDERALISM" INITIATIVE.

CRIMINAL JUSTICE AND PUBLIC SAFETY

THE EXTENSIVE INVOLVEMENT OF COUNTY GOVERNMENT IN PROGRAMS FOR YOUTH HAS LED NACo TO VIGOROUSLY SUPPORT THE JUVENILE JUSTICE AND DELINQUENCY PREVENTION ACT SINCE IT WAS FIRST PROPOSED. IN THE FEW YEARS OF ITS EXISTENCE, THE OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION HAS HAD A SIGNIFICANT IMPACT ON THE JUVENILE JUSTICE SYSTEM IN THIS COUNTRY.

MOST STATES HAVE REMOVED THEIR STATUS OFFENDERS FROM SECURE FACILITIES. OVER 30 STATES HAVE REVISED THEIR CODES TO PROVIDE FOR PROGRAMS AND SERVICES THAT MEET THE GOALS OF THE ACT.

AT THE SAME TIME, STATE AND LOCAL GOVERNMENTS HAVE BEEN ABLE TO USE FEDERAL JUVENILE JUSTICE FUNDING AS SEED MONEY WITH WHICH TO TRY PROMISING PROGRAMS IN THEIR JURISDICTIONS. WITHOUT FEDERAL FUNDING MANY INNOVATIVE PROGRAMS WOULD NEVER HAVE BEEN ATTEMPTED, EITHER BECAUSE OF LIMITED RESOURCES AT THE COUNTY LEVEL OR BECAUSE OF RESISTANCE FROM SOME ELEMENTS OF THE SYSTEM. IT HAS BEEN TRUE, IN SOME CASES, THAT THE ONLY REASON CERTAIN COUNTIES ESTABLISHED NEW JUVENILE JUSTICE PROGRAMS WAS THAT FEDERAL MONEY WAS AVAILABLE FOR THEM. WHAT THE FEDERAL MONEY DID WAS TO ALLOW THEM TO DISCOVER THAT MOST OF THESE EXPERIMENTAL PROGRAMS DID IMPROVE THEIR JUVENILE JUSTICE SYSTEMS. SOME COUNTIES HAVE PICKED UP THE COSTS OF EVERY SUCCESSFUL EXPERIMENTAL JUVENILE JUSTICE PROJECT THAT WAS INITIALLLY FUNDED BY OJJDP FUNDS.

THE NATIONAL ASSOCIATION OF COUNTIES BELIEVES THAT THE OFFICE OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION'S SUCCESS RATE JUSTIFIES ITS CONTINUED EXISTENCE AS A SEPARATE AGENCY TO FOCUS ON JUVENILE PROBLEMS AT THE LOCAL LEVEL. NACO URGES THE CONGRESS TO ALLOW ROOM IN THE FIRST BUDGET RESOLUTION FOR ADEQUATE FUNDING OF OJJDP AS A SEPARATE AGENCY.

HOUSING AND COMMUNITY DEVELOPMENT

AS THE COMMITTEE KNOWS, THE ADMINISTRATION PROPOSES TO RETAIN THE FISCAL YEAR 1982 APPROPRIATION LEVEL OF THE COMMUNITY DEVELOPMENT BLOCK GRANT ($3.45 BILLION) AND THE URBAN DEVELOPMENT ACTION GRANT ($440 MILLION) PROGRAMS IN FISCAL YEAR 1983. THESE AMOUNTS ARE BELOW THE $3.7 BILLION AND $500 MILLION AUTHORIZED RESPECTIVELY FOR THESE PROGRAMS BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981.

NACO STRONGLY URGES THE COMMITTEE TO ALLOW ROOM IN THE BUDGET RESOLUTION FOR FULL AUTHORIZATION LEVELS FOR THESE PROGRAMS FOR FISCAL 1983.

IN SUPPORT OF THIS RECOMMENDATION WE WISH TO POINT OUT THAT THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM HAD ITS FISCAL 1982 AND FISCAL 1983 AUTHORIZATION LEVELS SIGNIFICANTLY REDUCED IN LAST YEAR'S RECONCILIATION PROCESS FROM WHAT CONGRESS APPROVED AS PART OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1980. IT ALSO ABSORBED A NUMBER OF OTHER CATEGORICAL GRANT PROGRAMS--701 PLANNING, NEIGHBORHOOD SELF-HELP, HOUSING REHAB LOANS--AS PART OF THE RECONCILIATION PROCESS. AS A RESULT OF THE USE OF THE 1980 CENSUS DATA AND ACROSS-

THE-BOARD APPROPRIATIONS CUTS COMMUNITY DEVELOPMENT BLOCK GRANT RECIPIENTS ARE SEEING MARKED REDUCTIONS IN THEIR FUNDING LEVELS.

IF THE COMMUNITY DEVELOPMENT BLOCK GRANT IS TO CONTINUE BEING ONE OF THE BASIC BUILDING BLOCKS OF COMMUNITIES, ENABLING THEM TO MEET LOW INCOME PEOPLES' NEEDS, IT IS IMPERATIVE THAT IT BE FUNDED AT ITS FULLY AUTHORIZED AMOUNT.

NACo IS DEEPLY CONCERNED ABOUT THE ADMINISTRATION'S BUDGET REQUEST FOR LOW INCOME HOUSING ASSISTANCE. THE BUDGET, AS YOU KNOW, WOULD END LOW INCOME HOUSING CONSTRUCTION, EXCEPT FOR 10,000 UNITS UNDER THE SECTION 202 ELDERLY HOUSING PROGRAM. IT WOULD ALSO MODIFY THE EXISTING HOUSING PROGRAM REPLACING IT WITH A "VOUCHER-TYPE" PROGRAM UNDER WHICH TENANTS WOULD PAY MORE OF THEIR INCOME FOR RENT, HAVE THEIR FOOD STAMPS COUNTED AS INCOME AND PAY ALL OF THEIR UTILITIES.

MR. CHAIRMAN, NACo CERTAINLY SHARES THIS COMMITTEE'S, AND THE CONGESS', CONCERNS OVER THE HIGH COST OF ASSISTED HOUSING. WE THINK THERE MAY WELL BE BETTER WAYS TO MEET LOW INCOME HOUSING NEEDS. WE DO NOT THINK THE ADMINISTRATION'S PROPOSAL IS THE ANSWER. WE, THEREFORE, URGE THE COMMITTEE AND THE CONGRESS TO REJECT THE ADMINISTRATION'S FISCAL YEAR 1982 $9.4 BILLION RESCISSION OF ASSISTED HOUSING FUNDS AND FOR FISCAL 1983 MAINTAIN THE SAME LEVEL OF FUNDING AS THAT PROVIDED IN FISCAL 1982. THIS COULD GIVE THE AUTHORIZING COMMITTEE TIME TO DETERMINE A BETTER WAY TO DELIVER RESOURCES TO MEET LOW INCOME HOUSING NEEDS, SUCH AS THROUGH A HOUSING BLOCK GRANT, WHICH NACo SUPPORTS.

EMPLOYMENT

WE CONTINUE TO SUPPORT THE NEED FOR FEDERAL FUNDING FOR THE NATIONAL EMPLOYMENT AND TRAINING SYSTEM. WE FEEL THAT THE BILL (S.2036) SPONSORED BY SENATORS QUAYLE, KENNEDY, PELL AND HAWKINS MEETS THIS GOAL. WE FULLY SUPPORT THE PROGRAM YEAR CONCEPT OF THIS BILL. IN ORDER TO MEET THE AUTHORIZATION LEVELS IN S.2036 FOR THIS CONCEPT AND THUS, INSURE THE FUNDING STABILITY NECESSARY FOR ADEQUATE PLANNING, AT LEAST $6.65 BILLION IN BUDGET AUTHORITY WOULD BE NEEDED TO MEET THE 21 MONTH PERIOD FROM OCTOBER 1, 1982 TO JUNE 30, 1984. WE FEEL THAT THIS IS A TECHNICAL ADJUSTMENT THAT WOULD NOT SIGNIFICANTLY IMPACT ON OUTLAYS OR THE DEFICIT. WE URGE THIS COMMITTEE TO PROVIDE BUDGET AUTHORITY NECESSARY FOR A PROGRAM DESIGNED TO MEET THE NEEDS OF THE DISPLACED WORKER.

ENVIRONMENT AND ENERGY

ON ITS FACE IT WOULD APPEAR THAT THERE HAS BEEN LITTLE CHANGE IN THE DEPARTMENT OF ENERGY'S BUDGET SINCE FISCAL 1981, A SMALL DECREASE FROM $8.7 BILLION TO $8.61 BILLION. HOWEVER, THIS SIMPLISTIC APPROACH DISGUISES THE FACT THAT DOE'S BUDGET HAS UNDERGONE A MASSIVE REORIENTATION WHICH WOULD BE CARRIED FURTHER IF THE PROPOSAL AS SUBMITTED WERE ADOPTED.

ALTHOUGH THE OVERALL BUDGET HAS REMAINED FAIRLY CONSTANT, ATOMIC DEFENSE PROGRAMS HAVE INCREASED BY APPROXIMATELY 53% WHILE CIVILIAN ENERGY PROGRAMS HAVE BEEN REDUCED BY 46%. EVEN MORE DISTRESSING FOR LOCAL GOVERNMENTS IS HOW THIS REDUCTION HAS BEEN APPORTIONED AMONG THE VARIOUS PROGRAM ELEMENTS. IT IS CLEAR THAT THE PRESIDENT, IN SUBMITTING A PROPOSAL FOR AN ALMOST ALL NUCLEAR BUDGET, HAS ABANDONED THE GOAL OF ACHIEVING BALANCE AMONG ENERGY PROGRAMS.

A QUICK LOOK AT THE HISTORY OF DOE CIVILIAN PROGRAMS WILL SHOW HOW PURSUING MANY OPTIONS SIMULTANEOUSLY HAS GIVEN WAY TO PUTTING ALL OUR ENERGY EGGS IN THE NUCLEAR BASKET. IN FISCAL YEAR 1981 THE PROGRAM MIX WAS APPROXIMATELY AS FOLLOWS: NUCLEAR FISSION 29 PERCENT, FOSSIL ENERGY 21 PERCENT, SOLAR AND RENEWABLES 18 PERCENT, ENERGY CONSERVATION 18 PERCENT, AND NUCLEAR FUSION 14 PERCENT. THE PROPOSED MIX FOR FISCAL YEAR 1983 WOULD BE: NUCLEAR FISSION 55 PERCENT, NUCLEAR FUSION 32 PERCENT, FOSSIL ENERGY 7 PERCENT, SOLAR AND RENEWABLES 5 PERCENT, AND ENERGY CONSERVATION 1 PERCENT. MR. CHAIRMAN, A BUDGET WHICH IS 97 PERCENT NUCLEAR ENERGY PROGRAMS DOES NOT MEET ANY REASONABLE TEXT OF BALANCE.

THE OMNIBUS RECONCILIATION ACT OF 1981 AND THE FISCAL YEAR 1982 APPROPRIATIONS BILL WERE CLEAR CONGRESSIONAL REPUDIATIONS OF THIS UNBALANCED COURSE. WE VERY STRONGLY URGE YOU TO REAFFIRM THIS COMMITMENT TO A BALANCED ENERGY POLICY IN THE FIRST BUDGET RESOLUTION.

THE MOST SALIENT FEATURE OF THE 1983 BUDGET PROPOSAL IS FOR THE ENVIRONMENTAL PROTECTION AGENCY. GRANTS TO STATES TO MANAGE ENVIRONMENTAL PROGRAMS ARE BEING CUT WHILE AT THE SAME TIME MORE RESPONSIBILITY IS BEING TURNED OVER TO THE STATES. WE ARE CONCERNED THAT THE MAGNITUDE AND THE SPEED OF THE PROPOSED CUTS WILL ENDANGER OUR ABILITY TO MEET ENVIRONMENTAL GOALS.

AS A RESULT, WE STRONGLY SUPPORT THE BUDGET RESOLUTION ALLOWING FOR FISCAL 1983 FUNDING FOR EPA AT THE FISCAL 1982 LEVEL WITH THE ADDITION OF FUNDING FOR WASTE WATER CONSTRUCTION

GRANTS. THIS WOULD ALLOW US THE TIME TO ADJUST TO THE SIGNIFICANT CUTS WHICH HAVE ALREADY BEEN MADE AND DETERMINE WHETHER OUR ABILITY TO MEET ENVIRONMENTAL GOALS HAS BEEN IMPAIRED AND WHETHER ADDITIONAL CUTS ARE POSSIBLE.

HEALTH

NACo IS DEEPLY CONCERNED ABOUT PROPOSED BUDGET CUTS THAT WOULD SERIOUSLY CURTAIL OR ELIMINATE SERVICES TO AMERICANS WHO ARE MOST IN NEED OF CARE: THE POOR, ELDERLY, AND DISABLED, AND POOR YOUNG CHILDREN WHOSE FUTURE HEALTH IS DEPENDENT UPON THE CARE THEY RECEIVE TODAY.

MANY OF THE CUTS IN MEDICARE AND MEDICAID WILL AFFECT NOT ONLY THOSE ELIGIBLE FOR BENEFITS, BUT THE MANY MILLIONS WHO ARE NOT ELIGIBLE BUT AS INDIGENTS ARE DEPENDENT UPON COUNTY HOSPITALS AND OTHER COUNTY FACILITIES FOR THEIR CARE. THE PROPOSED BUDGET REDUCTIONS COULD SERIOUSLY UNDERMINE THE FISCAL VIABILITY OF MANY OF THESE INSTITUTIONS. COUNTY GOVERNMENTS CANNOT KEEP UP WITH THE GROWING GAP BETWEEN AVAILABLE FEDERAL AND STATE FUNDING, AND THE RATE OF INCREASE IN HEALTH CARE COSTS. IN 1980, LOCAL GOVERNMENTS FINANCED SOME $13 BILLION FOR THE PROVISION OF HEALTH CARE SERVICES. IT IS INEVITABLE THAT FEDERAL AND STATE BUDGET CUTS, COUPLED WITH A CONTINUED ESCALATION IN COSTS WILL FORCE REDUCTIONS IN SERVICES. WE WOULD BE HAPPY TO SUBMIT FOR THE RECORD DATA WHICH DEMOSTRATES THIS TREND IN SEVERAL MAJOR COUNTY FACILITIES, IN RESPONSE TO FISCAL 1982 BUDGET CUTS. IT WAS THE JUDGEMENT OF THOSE HOSPITAL ADMINISTRATORS THAT THIS TREND CAN ONLY ACCELERATE DIRECTLY IN RELATION TO THE CUTS PROPOSED FOR FISCAL 1983.

ACCORDINGLY, NACo'S HEALTH AND EDUCATION STEERING COMMITTEE AND ITS MEDICAID TASK FORCE RECENTLY MET AND ADDRESSED THIS AS AN ISSUE OF MAJOR CONCERN TO COUNTY GOVERNMENTS. A VARIETY OF POSSIBLE OPTIONS ARE BROUGHT TO THIS COMMITTEE'S ATTENTION FOR CONSIDERATION. ESSENTIALLY, IT IS A LIST OF APPROACHES WHICH MIGHT BE ADOPTED BY CONGRESS TO HELP OFFSET THE FULL IMPACT OF BUDGET CUTS ON COUNTY HEALTH CARE FACILITIES - PARTICULARLY WHERE THERE ARE MAJOR CONCENTRATIONS OF INDIVIDUALS REQUIRING UNCOMPENSATED CARE. THE LIST INCLUDES THE FOLLOWING SUGGESTIONS:

- THE DEVELOPMENT OF SPECIAL ALLOWANCES IN THE MEDICARE REASONABLE COST REIMBURSEMENT FORMULA, TARGETED TO THE NEEDS OF COUNTY HOSPITALS AND CLINICS, AND NURSING HOMES;

- GRANTING AN OPTION TO COUNTY HOSPITALS, CLINICS AND NURSING HOMES TO UTILIZE ALTERNATIVE REIMBURSEMENT MECHANISMS, SUCH AS PROSPECTIVE REIMBURSEMENT;
- PERMIT COUNTY HOSPITAL EXEMPTIONS FROM ANY ACROSS-THE-BOARD CUTS IN MEDICARE REIMBURSEMENT;
- EXEMPT FROM REDUCTIONS IN THE FEDERAL MEDICAID MATCH RATE ALL MEDICAL SERVICES PROVIDED IN COUNTY HOSPITALS, CLINICS AND NURSING HOMES; AND
- ENACTMENT OF A DEDICATED TAX AS A NATIONAL REVENUE SOURCE FOR COUNTY HOSPITALS, NURSING HOMES AND CLINICS, OVER AND ABOVE MEDICARE AND MEDICAID INCOME.

IN SUMMARY, THESE ARE APPROACHES WHICH GIVE RECOGNITION TO THE SPECIAL ROLE OF COUNTY HOSPITALS AS THE ONLY TRUE SAFETY NET IN OUR HEALTH CARE SYSTEM. GIVEN THEIR ALMOST TOTAL DEPENDENCY, IN MANY URBAN AREAS, UPON LOCAL STATE AND FEDERAL TAX DOLLARS, SUCH INSTITUTIONS ARE BEING ASKED TO BEAR A DISPROPORTIONATE BURDEN OF PROPOSED BUDGET CUTS--AS ARE THE PATIENTS THEY SERVE.

NACO IS ALSO CONCERNED ABOUT PROPOSED REDUCTIONS TO THE MATERNAL AND CHILD HEALTH BLOCK GRANT. IN CONCERT WITH THE PROPOSED CONSOLIDATION OF THE WIC PROGRAM WITH THIS BLOCK, TOTAL FUNDING WOULD ACTUALLY BE REDUCED BY 22 PERCENT OVER FISCAL YEAR 1982 FUNDING LEVELS. THIS IS AN UNACCEPTABLE CUT, AND CANNOT BE OFFSET BY REDUCTIONS IN ADMINISTRATIVE COSTS WHICH MAY RESULT FROM THE CONSOLIDATION OF THESE PROGRAMS.

WELFARE AND SOCIAL SERVICES

RECENT CHANGES BROUGHT ABOUT IN THIS CONGRESS HAVE ALREADY DONE MUCH TO CONTROL THE GROWTH OF THE WELFARE PROGRAMS. WE ARE NOW ASSESSING THE NEW PROPOSED 1983 CUTS IN A CLIMATE IN WHICH THE IMPACT OF LAST YEAR'S SPENDING REDUCTIONS IS NOT AS YET CLEAR, AT LEAST AT THE COUNTY LEVEL. BUT WE DO KNOW THE IMPACT ON RECIPIENTS AND ON THE FEDERAL AND STATE BUDGETS WILL BE SUBSTANTIAL.

FOR EXAMPLE, NEW YORK CITY REPORTS THAT AS OF MID-JANUARY, 9600 PERSONS HAD BECOME INELIGIBLE FOR AFDC AND 16,000 PERSONS WERE DROPPED FROM FOOD STAMPS BECAUSE OF THE NEW GROSS INCOME LIMIT. LOS ANGELES COUNTY PROJECTS THAT WHEN FULLY IMPLEMENTED, THE CHANGES WILL RESULT IN TERMINATION OR REDUCTION OF BENEFITS TO 90,000 AFDC RECIPIENTS AND 105,000 FOOD STAMP RECIPIENTS. NACo WILL CONTINUE TO SUPPORT CHANGES TO IMPROVE THE ADMINISTATION OF AFDC AND FOOD STAMPS, ESPECIALLY CHANGES THAT MAKE THE ELIGIBILITY PROCESSES SIMILAR OR PERMIT CASHING OUT THE FOOD STAMP PROGRAM. BUT WE OPPOSE THE PROPOSED STATE RESPONSIBILITY FOR COSTS OF ERROR RATE ABOVE 3 PERCENT, AS A CLEAR SHIFT OF FEDERAL COSTS AND AN UNREALISTIC GOAL. WE WOULD SUPPORT AN INCENTIVE PROCESS TO ENCOURAGE STATES AND COUNTIES TO CONTROL ERROR RATES, RATHER THAN A SANCTION THAT EVENTUALLY SHIFTS THE ERROR COSTS TO STATES AND COUNTIES.

AS FOR FURTHER BENEFIT REDUCTIONS, WE MUST INSIST ON A MORATORIUM ON FURTHER BUDGET CUTS UNTIL WE CAN DETERMINE WHAT THE IMPACT OF THE CUTS ALREADY ASSESSED AGAINST US CAN BE. COUNTY OFFICIALS ARE FACED WITH THE DUAL RESPONSIBILITY OF HAVING TO CONTINUE TO CARE FOR THE NEEDY, WHILE AT THE SAME TIME HAVING TO INCREASE REAL PROPERTY TAXES TO PAY FOR THEM, UNLESS THE FEDERAL GOVERNMENT PACES ITS APPROACH TO BUDGET CUTTING.

NACo WILL CONTINUE TO SUPPORT THE CONSOLIDATION OF NARROW CATEGORICAL PROGRAMS INTO BLOCK GRANTS THAT INSURE THE PARTICIPATION OF COUNTY ELECTED OFFICIALS IN THE PROGRAM FUNDING AND ALLOCATIONS DECISION MAKING. THE PROPOSED CHILD WELFARE BLOCK GRANT IS ACCEPTABLE, AT 1982 FUNDING LEVELS AND PROVIDED THAT IT RETAINS THE CURRENT STATUTORY LANGUAGE TO PRESERVE THE ENTITLEMENT NATURE OF FOSTER CARE INCOME MAINTENANCE PAYMENTS. NACo OPPOSES FURTHER REDUCTIONS IN THE SOCIAL SERVICES BLOCK GRANT SPENDING LEVEL AND IN THE OLDER AMERICANS ACT TITLES. FOR REFUGEES, WE SUPPORT CONTINUING FEDERAL REIMBURSEMENT FOR ALL COSTS OF CASH AND MEDICAL ASSISTANCE AND SOCIAL SERVICES UNTIL REFUGEES HAVE REACHED A REASONABLE LEVEL OF SELF SUPPORT.

PAYMENTS-IN-LIEU-OF-TAXES

WE SUPPORT FUNDING OF THE PAYMENTS-IN-LIEU-OF-TAXES PROGRAM AT $110 MILLION FOR FISCAL 1983. THE PAYMENTS-IN-LIEU-OF-TAXES PROGRAM IS CRITICAL TO THE BUDGETS OF PUBLIC LANDS COUNTIES. WE HOPE THE COMMITTEE WILL TAKE THIS FACT INTO ACCOUNT, AND PROVIDE FOR THAT LEVEL OF FUNDING FOR PAYMENTS-IN-LIEU-OF-TAXES IN THE FIRST BUDGET RESOLUTION.

ENACTED IN 1976, THE PROGRAM PROVIDES MINIMUM PAYMENTS TO LOCAL GOVERNMENTS TO PARTIALLY COMPENSATE THEM FOR THE TAX IMMUNITY OF FEDERAL NATURAL RESOURCE LANDS. THESE LANDS ARE: NATIONAL FORESTS AND GRASSLANDS, NATIONAL PARKS, WILDERNESS AREAS, FISH AND WILDLIFE REFUGES, BUREAU OF LAND MANAGEMENT (BLM) LANDS, CORPS OF ENGINEERS AND BUREAU OF RECLAMATION LANDS, AND INACTIVE ARMY RESERVE LANDS, PILT PAYMENTS GO TO OVER 1500 COUNTIES NATIONWIDE.

VAST HOLDINGS OF TAX EXEMPT FEDERAL LANDS, PARTICULARLY IN THE WEST, HAVE LONG DEPRIVED COUNTIES OF A VIABLE TAX BASE. FOR EXAMPLE, MANY WESTERN COUNTIES CONTAIN OVER 90 PERCENT FEDERAL LANDS, SEVERAL EASTERN COUNTIES CONTAIN OVER 60 PERCENT. COUNTIES BUDGET FOR AND PLACE PILT PAYMENTS IN THEIR GENERAL FUNDS. IT COMPRISES OVER 50 PERCENT OF THE GENERAL FUND OPERATING EXPENSES IN SEVERAL WESTERN COUNTY BUDGETS. IN THE EAST, PILT IS ALSO CRUCIAL TO COUNTY BUDGETS. MANY EASTERN COUNTIES RECEIVE OVER $20,000 IN PILT PAYMENTS, SUCH AS $21,000 MICHIGAN AND $23,000 IN VIRGINIA.

THUS, IF THERE ARE ANY REDUCTIONS IN THE PROGRAM, COUNTIES WILL BE HARD PRESSED TO FIND ALTERNATIVE SOURCES OF FUNDING. YET THE ADMINISTRATION, BOTH LAST YEAR AND IN ITS FISCAL 1983 BUDGET, IS PROPOSING TO PERMANENTLY CUT THE PROGRAM BY OVER 60 PERVENT. THIS PROPOSAL COMES AT A TIME WHEN INCREASED FEDERAL LANDS ACTIVITIES ARE REQUIRING MORE LOCAL LAW ENFORCEMENT, ROAD MAINTENANCE, FIRE PROTECTION, HEALTH AND HOSPITAL SERVICES, AND OTHER LOCAL GOVERNMENT SERVICES DEMANDED BY THE USERS OF FEDERAL LAND. FOR EXAMPLE, LAST YEAR THERE WERE 300 MILLION NATIONAL PARK VISITS, AN ALL TIME HIGH.

THE RELIANCE BY COUNTIES ON THE PROPERTY TAX UNDERSCORES HOW ESSENTIAL PILT IS. NATIONALLY, THE PROPERTY TAX ACCOUNTS FOR 26 PERCENT OF COUNTY OWN-SOURCE REVENUES. HOWEVER, COUNTIES CANNOT NECESSARILY RAISE PROPERTY TAXES ON THEIR PRIVATE LANDS TO COMPENSATE FOR THE TAX-EXEMPT PRESENCE OF FEDERAL LAND. TWENTY-SIX STATES HAVE SOME FORM OF PROPOSITION 13 IN EFFECT.

THE PRIMARY SOURCE OF COUNTY REVENUE IS STATE SHARED REVENUES. HOWEVER, IN THIS PRESENT ECONOMIC CLIMATE COUNTIES CANNOT TURN TO THE STATES TO MAKE UP FOR THEIR REVENUE SHORTFALLS. THE NATIONAL GOVERNORS' ASSOCIATION HAS ESTIMATED THAT STATES WILL LOSE BETWEEN $8 AND $12 BILLION THIS YEAR BECAUSE OF FEDERAL BUDGET CUTS AND TAX CODE CHANGES. THUS, WHATEVER SMALL SURPLUS THERE MIGHT BE IN STATE OPERATING BUDGETS COULD BE TOTALLY WIPED OUT BY THE END OF FISCAL 1982. SO, COUNTIES MUST LOOK ELSEWHERE.

BY MOST STATE LAWS COUNTIES MUST BALANCE THEIR BUDGETS. A LOCAL GOVERNMENT CANNOT HAVE A DEFICIT OR GO BANKRUPT. THE STATES HAVE TO STEP INTO THE BREACH, BUT IN LIGHT OF PROJECTED DEFICITS STATES WILL BE HARD PRESSED TO BAIL OUT COUNTIES WHO CANNOT RAISE ADEQUATE REVENUES BECAUSE SO MUCH OF THEIR LAND IS TAX EXEMPT.

WHILE NECESSARY, PILT PAYMENTS DO NOT PROVIDE A TRUE TAX EQUIVALENCY. NATIONWIDE, COUNTIE ONLY AVERAGE ABOUT 15 CENTS AN ACRE FOR THE 700 MILLION ACRES UNDER THE PROGRAM. FOR EXAMPLE, IN COLORADO, GRAZING LANDS--THE LEAST VALUABLE CATEGORY OF LANDS--ARE ASSESSED AT $1.80 TO $44.64 AN ACRE. COUNTIES NATIONWIDE ACTUALLY RECEIVE NEARLY $80 MILLION LESS THAN THEY WOULD HAVE IF THE LANDS WERE PRIVATELY HELD.

WHILE WE SUPPORT THE ADMINISTRATION'S APPROACH TO DEVOLUTION--RETURNING RESPONSIBILITIES TO STATE AND LOCAL GOVERNMENTS--COUNTIES MUST HAVE THE FISCAL RESOURCES TO CARRY OUT THESE RESPONSIBILITIES. IN A TIME WHERE THE COMMITMENT IS TO RETURN TO THE STATES AND LOCALITIES, THE PILT PROGRAM IS AN EXAMPLE OF SUCH A PROGRAM THAT IS ALREADY IMPLEMENTED. IT IS RESOURCE RETURN DIRECTLY TO THE COUNTIES, AND OPERATES WITH LESS THAN ONE PERCENT OVERHEAD AND WITH NO RED TAPE OR COSTLY, TIME-CONSUMING APPLICATION PROCEDURES. THE ADMINISTRATION'S PILT PROPOSAL IS DESIGNED TO TAKE MONEY AWAY FROM COUNTIES RATHER THAN RETURN TO THEM TO PROVIDE

SERVICES TO FEDERAL PROPERTY.

PILT IS NOT A CATEGORICAL GRANT PROGRAM OR GIVEAWAY. AS A LARGE PROPERTY OWNER, THE FEDERAL GOVERNMENT IS BEING ASKED TO ASSUME THE RESPONSIBILITIES OF ANY OTHER LANDOWNER WITHIN A COUNTY AND PAY ITS PROPERTY TAXES. NACO CANNOT EMPHASIZE STRONGLY ENOUGH HOW INTEGRAL THIS PROGRAM IS TO OVER 1500 COUNTY GOVERNMENTS. WE BELIEVE IT ONLY EQUITABLE THAT THE COUNTRY'S LARGEST LANDOWNER SHOULD CONTINUE TO USE THE PILT PROGRAM TO COMPENSATE FOR THE FISCAL DISPARITY THIS CREATES.

TRANSPORTATION

BECAUSE OF THE INCREASING DETERIORATION IN ALL PHASES OF THE NATION'S TRANSPORTATION INFRASTRUCTURE, NACO URGES CONGRESS TO FREEZE THE SPENDING LEVELS FOR HIGHWAY, MASS TRANSIT, AND AIRPORT DEVELOPMENT PROGRAMS AT THOSE ENACTED IN THE DEPARTMENT OF TRANSPORTATION'S FY'82 APPROPRIATIONS BILL, (P.L.97-102).

NACO WOULD ALSO LIKE TO EXPRESS THE FOLLOWING CONCERNS ABOUT THE PRESIDENT'S BUDGET IN THREE MAJOR AREAS, HIGHWAYS, TRANSIT, AND AIRPORTS.

I. HIGHWAYS

LOWERING THE OBLIGATION CEILING, AS THE PRESIDENT HAS SUGGESTED TO $7.7 BILLION WOULD HAVE DEVASTATING EFFECTS ON THE LEVEL OF OBLIGATIONS ESTIMATED FOR THE FEDERAL AID SECONDARY AND URBAN SYSTEMS. THESE PROGRAMS ARE OF PRIMARY IMPORTANCE TO THE NATION'S COUNTIES. THE SECONDARY SYSTEM WOULD EXPERIENCE A 34% CUT IN OBLIGATIONS FROM THE '81 LEVEL AND THE URBAN SYSTEM A 49% CUT. THIS IS UNWISE DUE TO THE DETERIORATION THESE SYSTEMS ARE ALREADY UNDERGOING. ACCORDING TO THE DEPARTMENT OF TRANSPORTATION'S STATUS OF THE NATION'S HIGHWAY CONDITIONS AND PERFORMANCE REPORT, 95% OF THE SECONDARY SYSTEM'S PAVEMENT MAY HAVE TO BE REPLACED BY 1995 AT AN ESTIMATED COST OF $56 TO $59 BILLION TO MAINTAIN EXISTING CONDITIONS.

FURTHER CUTS IN FUNDING, SUCH AS THOSE PROPOSED BY THE PRESIDENT, WILL ONLY ESCALATE THE DECLINE AND ADD TO THE FUTURE COSTS STATES AND LOCALITIES MAY HAVE TO BEAR ALONE IF THESE PROGRAMS ARE TURNED BACK AS PART OF THE NEW FEDERALISM.

THE HIGHWAY BRIDGE REPLACEMENT AND REHABILITATION PROGRAM IS OF MAJOR IMPORTANCE TO THE NATION'S COUNTIES. OF THE $41.1 BILLION NEEDED TO REPAIR OR REPLACE TODAY'S DEFICIENT BRIDGES, $25 BILLION IS ATTRIBUTABLE TO COUNTY ON-AND OFF-SYSTEM BRIDGES. ACCORDING TO A RECENT GAO STUDY, ONLY 3% OF THESE DEFICIENT BRIDGES HAD BEEN APPROVED FOR REPAIR OR REPLACEMENT BY DECEMBER OF 1980.

GIVEN THE SERIOUSNESS OF THE NATION'S BRIDGE PROBLEM, AND THE CURRENT BACKLOG, EVEN THE RELATIVELY MINOR CUT OF $50 MILLION PROPOSED BY THE PRESIDENT IS UNACCEPTABLE TO NACO. WE PROPOSE, INSTEAD, A TEMPORARY FREEZE ON BRIDGE SPENDING AT THE $900 MILLION LEVEL APPROVED IN FY'82 UNTIL THE ECONOMIC RECOVERY TAKES HOLD. AT WHICH TIME WE WOULD EXPECT CONGRESS TO INCREASE BRIDGE FUNDING SUBSTANTIALLY.

MASS TRANSIT

MANY OF THE NATION'S COUNTIES OPERATE OR CONTRIBTE TO PUBLIC TRANSPORTATION SYSTEMS. COUNTY RESIDENTS ARE, THEREFORE, ON THE RECEIVING END OF THE FARE INCREASES AND SERVICE CUTBACKS GENERATED BY THE FY'82 TRANSIT BUDGET REDUCTIONS. IN 1980 ALLEGHENY COUNTY, A DIRECT PROVIDER OF PUBLIC TRANSPORTATION, RAISED FARES TWICE WITH A 9% LOSS IN RIDERSHIP. SOMERSET COUNTY, NEW JERSEY ESTIMATES THAT A 25% DECREASE IN TRANSIT RIDERSHIP MAY BE THE OUTCOME STATEWIDE DUE TO REPEATED FARE INCREASES.

THEREFORE, NACO RECOMMENDS A MORATORIUM ON FURTHER CUTS IN TRANSIT CAPITAL AND OPERATING COSTS TO GIVE COUNTY AND CITY TRANSIT SYSTEMS TIME TO ADJUST TO THE ALREADY SIGNIFICANT REDUCTIONS ENACTED IN 1982.

A FINAL DECISION IN PHASE OUT OF THE OPERATING ASSISTANCE PROGRAM CANNOT BE MADE IN NACO'S VIEW WITHOUT A CAREFUL REVIEW OF THE PROGRAM BY THE AUTHORIZING AND APPROPRIATIONS COMMITTEES. AN ASSESSMENT IS NEEDED OF THE IMPACT THIS WOULD HAVE ON TRANSIT THROUGHOUT THE COUNTRY.

AIRPORTS

NACO SUPPORTS THE PRESIDENT'S RECOMMENDED FUNDING LEVEL FOR THE AIRPORT DEVELOPMENT ASSISTANCE PROGRAM BUT HAS A NUMBER OF CONCERNS ABOUT THE PROPOSED INCREASES IN AVIATION USER FEES BEING PROPOSED. THE SIZE OF THE FEE INCREASES IS QUESTIONABLE IN LIGHT OF THE EXISTING BALANCE OF REVENUES IN THE ADAP TRUST FUND. THE USE OF 85% OF THESE REVENUES FOR FAA OPERATIONS, AS THE ADMINISTRATION PROPOSES, IS EVEN MORE UNDESIRABLE IN NACO'S VIEW. ADAP TRUST FUND REVEUES ARE ALREADY BEING DIMINISHED AND DIVERTED TO THE HIGHWAY AIRPORT TRUST FUND, THE GENERAL FUND AND TO FAA OPERATIONS AND MAINTENANCE REQUIREMENTS RATHER THAN DEVOTED TO AIRPORT DEVELOPMENT AND AVIATION SAFETY NEEDS FOR WHICH THEY WERE COLLECTED. THEREFORE, NACO URGES THE COMMITTEE TO DEFER THE AUTHORIZING AND APPROPRIATIONS COMMITTEES FOR DECISIONS ON USER FEE INCREASES. USER FEE INCREASES MAY BE NECESSARY BUT SHOULD BE UTILIZED FOR AIRPORT DEVELOPMENT AND AVIAION SAFETY PROJECTS WHICH BENEFIT USERS. THE REAUTHORIZATION AND APPROPRIATIONS PROCESSES ARE THE BEST VEHICLES FOR INSURING THAT THE RIGHT JUDGEMENTS ARE MADE ABOUT THE NEED FOR INCREASES AND THE LEGITIMATE PURPOSES TO WHICH THEY SHOULD BE DEDICATED.

NACO HAS ONE FINAL AREA OF CONCERN, MR. CHAIRMAN. THE ADMINISTATION'S BUDGET RECOMMENDATIONS AMOUNT TO A VERTICAL ASSAULT ON THE TRANSPORATION RESOURCES OF RURAL AMERICA. IN ADDITION TO AN ESTIMATED 34% CUT IN OBLIGATIONS FOR THE FEDERAL AID SECONDARY SYSTEM FROM THE'81 LEVEL, THE BUDGET PROPOSES TO CUT THE LOCAL RAIL ASSISTANCE PROGRAM BY 58%, LOWER BRIDGE APPORTIONMENTS BY $50 MILLION AND COMPLETELY ELIMINATE THE SMALL URBAN AND RURAL PUBLIC TRANSPORTATION PROGRAM, SECTION 18. THE CUTBACK IN LOCAL RAIL ASSISTANCE FUNDING IS SIGNIFICANT BECAUSE IT WILL HURT LOCAL GOVERNMENT EFFORTS TO CONTINUE NEEDED RAIL FREIGHT SERVICE THROUGHOUT THE NATION'S AGRICULTURAL

REGIONS. THIS WILL PUT INCREASING NUMBERS OF HEAVY TRUCKS ON DETERIORATING SECONDARY ROADS AND AGGREVATE THE SEVERE MAINTENANCE PROBLEMS EXPOSED BY DOT'S STATUS OF THE NATION'S HIGHWAYS REPORT. THE TERMINATION OF THE SECTION 18 PROGRAM COMPLETES THE FINAL DESTRUCTION OF RURAL AMERICA'S TRANSPORTATION "SAFETY NET". IT DEPRIVES THE MANY ELDERLY, HANDICAPPED AND DISADVANTAGED PUBLIC TRANSPORTATION RIDERS OF ANY MEANS OF MOBILITY OTHER THAN THE ALTRUISM OF FAMILY AND FRIENDS WHO MAY HAVE A FUNCTIONING AUTOMOBILE. HOPEFULLY, MR. CHAIRMAN, THE COMMITTEE WILL RECOGNIZE THE UNACCEPTABLE IMPACT SUCH CUTS WILL HAVE ON THE RURAL TRANSPORTATION RESOURCES OF THIS NATION.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE. THANK YOU.

CHANGE AUTHORIZATIONS AND MAKE MORE STRINGENT LIMITATIONS

Senator BOSCHWITZ. Mr. DelBello, I grew up in your county, and so have at least a passing familiarity with some of the geography that you spoke about earlier and was recently, Mr. Mayor, in Columbus, and I note with interest your suggestions with respect to the budget. Your budget suggestions, I totalled them up rapidly, would bring about a reduction of expenditures by about $25 billion and increase of revenues at least, according to your calculations, of about $35 billion to $40 billion, and that is not enough, simply not going to balance the budget, bring about some kind of fiscal sanity, so despite the difficulties that you experienced, even by making the rather modest suggestion of limiting increases to 75 percent of the CPI, I am afraid that we will have to change some authorizations and make even more stringent limitations. At least for a time, because the enormous growth of the budget and those particular areas. Hopefully, the Budget Committee and subsequently the balance of the Congress will allow continuation of revenue sharing and not cut so deeply into the programs that each of you have talked about this morning.

LIMIT GROWTH OF ENTITLEMENTS

I would support a maintenance of these levels that have existed in the 1982 budget but in order to do that, there are going to have to be some more severe attempts to limit the growth of the entitlements program. If we do not do that, we are going to be left with going after the appropriated program about which you speak.

The real question of whether or not we can reduce defense as much as you have spoken about and it is a question of whether or not it is the mood in the Congress to do that, and most importantly, whether or not the mood of the President is to do that, and whether you would approve a budget that made cuts as expansive as you outlined but I would support the cuts in approximately the amounts that you have outlined.

I have not myself been a State, county, or municipal official prior to getting here, so that it was interesting to hear about the problems that you have experienced.

I have read most of your testimony, Mr. DelBello, and I will see to it that I read the balance of it, as well as your statement, Mr. Mayor, and we thank you very much for coming today and please be assured that despite the scanty attendance of this hearing, particularly in your segment, Mr. DelBello, that Senators will indeed be made aware, perhaps in a summary, summarized fashion of your concerns and of your testimony, which has been valuable to us; and we thank you very much for coming.

[Whereupon, at 12:50 p.m., the committee adjourned.]

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TESTIMONY

on behalf of the

NATIONAL SCHOOL BOARDS ASSOCIATION

on

IMPACT OF THE REAGAN FY 1983 BUDGET PROPOSAL ON FEDERAL ELEMENTARY AND SECONDARY EDUCATION FUNDING

for submission to the

COMMITTEE ON THE BUDGET
U.S. Senate
6202 Dirksen Senate Office Building

March 12, 1982

Presented by
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serving American education through school board leadership

Introduction

As President of the National School Boards Association (NSBA), I am pleased that we can submit this testimony to the Senate Budget Committee. The National School Boards Association is the only major education organization representing school board members who govern the nation's public school districts. Throughout the nation, approximately 90,000 of these individuals are Association members. These people, in turn, are responsible for the education of more than ninety-five percent of the nation's public school children.

Currently marking its forty-second year of service, NSBA is a federation of state school boards associations, with direct local school board affiliates, constituted to strengthen local lay control of education and to work for the improvement of education. Most of these school board members are elected public officials. Accordingly, they are politically accountable to their constituents for both education policy and fiscal management. As lay unsalaried individuals, school board members are in the rather unique position of being able to judge legislative programs purely from the standpoint of public education, without consideration to their personal professional interest.

As President of the National School Boards Association, I want to extend our graditude for having an opportunity to present this testimony to the Senate Budget Committee. In this testimony to the Senate, NSBA will stick primarily to the economic situation affecting all local government structures -- in this case, the capability of school boards to provide quality public education services in the context of the budget cuts from the federal and state levels which are compounding poor fiscal situations of local communities across the nation. Specifically, We will examine the Reagan Administration's arguments used in a variety of forums as the justifications for deep federal elementary and secondary education reductions.

To really understand what is happening to local governmental units, of which we are one, the drastic educational cuts being proposed by the Administration for FY 1983, on top of what we have already absorbed in FY 1981 and FY 1982, must be considered in the context of the total intergovernmental fiscal picture. Local governmental units are where the buck truly stops. For a majority of school boards he buck must come from the local property tax or services must be cut. On behalf of the 16,000 public school districts in this country, I want you to know that the current economic situation of this country is beginning to frighten us. You know the facts but I shall repeat them because they directly affect our revenue sources as well as those of the federal governments.

- The growth rate of the GNP dropped from plus 8.6% in the first quarter of 1981 to a minus 5.2% in the fourth quarter.
- The December unemployment rate hit its highest unemployment rate since December 1975.
- The bankruptcies' rate increased by 43% a week in the period from January 1981 to January 1982.
- Farm prices in our rural school districts hit a new record by falling 12 consecutive months. and
- municipal bonds hit a record high of 13.4% last month over what we knew to be too high at 9.7% a year ago --

When these and many national economic indicators confirm what we see happening in our neighborhoods, the argument that more education cuts in elementary and secondary education will bring economic recovery does not fit the situation. Elementary and Secondary Federal programs are "advance-funded" which means that the budget authority is put into the federal budget one year, and the funds are outlayed the next year. What this means is that this school year the education funding levels are from the FY 1981 Appropriations bill. The public schools have not yet felt the bulk of the education cuts that are yet to come. In 1981, Elementary and Secondary education programs were cut about 8% under FY 1980. Next year the schools will receive their FY 1982 Appropriation levels. If we receive the funding levels in the current Continuing Resolution on Appropriations (P.L. 97-92), the schools will receive an additional 9% cut under this year. If the Administration has its way, it will cut these 1982 levels by about 15% more, bringing the total 1982 cuts to 22% under this year. We hope of course that this will not happen. By FY 1983, the Administration is proposing to cut these programs by another 19%. This adds up to a 42% cut in the major elementary and secondary education programs from 1980 levels.

If the Administration follows the pattern of the past 13 months, the FY 1983 proposed level will be lowered a number of times throughout the year. Since taking office, the Administration has proposed 5 reductions in education funding. The 33% overall reduction includes, by the way, the explosive growth of higher education in FY 1980 and 1981. Bluntly, elementary and secondary education programs are taking a funding beating at the federal level and have been doing so since FY 1980. That is a fact -- the numbers speak for themselves.

Such a remark should not be interpreted as an attack on higher education funding. This Administration, in public and private meetings, has been using much persuasion to try to lure the elementary and secondary education community into that trap. We will not take the bait. I can only presume that the Administration must not know what we know -- which is that elementary and secondary students grow up and many go on to postsecondary education. We, at the elementary and secondary level are the first educational building block that provides our people with an equal opportunity to compete. The capability of elementary and secondary education to prepare children for their adult choices has a direct impact on the post-secondary institutions of this country. I hope when you examine Function 500 of the budget, that you will do so in the light of a comprehensive federal commitment to the human capital investment needed for the long-term economic health of the country and that commitment includes elementary and secondary education as well as postsecondary education. We do not want students who are now achieving because of the successes of ESEA Title I and the Education of All Handicapped Children Act to have their potential stunted by not being able to attend a postsecondary institution where further education in the career of their choice is available. Neither do we want their opportunity to develop into the individuals who can benefit from higher education to be taken away by the elimination of federal critical elementary and secondary education services being provided at the local level. They cannot afford it. Our nation's economic future cannot afford it.

The Administration's proposal for higher education where private and public tuitions have been subsidized for young people is particularly cogent at this point for school board members. While on one hand the Administration argues that its higher education program which funds student costs for the more expensive private institution as well as the public institutions is too expensive, it is advocating on the other hand for an expanded federal responsibility for private, elementary and secondary schools through tuition tax credits. The tuition tax credit proposal for any minimum level of federal support for private schools would cost over $2 billion just for elementary and secondary education. There appears to be a systematic attempt to shift the federal role in elementary and secondary education from federal support of public schools to federal support of private schools.

As the only committee that must balance both revenues and appropriations in the consideration of the budget, the NSBA wants you to be alert to the inconsistencies and inadequacies of this Administration's vision of the federal role in education as evaluated using the criteria of fairness and the long-term economic potential of the nation's human capital investment. The cuts being proposed for our public elementary and secondary institutions in the 1983 Reagan budget proposal will bring neither prosperity nor opportunities to this nation. There is a stiff price to be paid for the legislative achievements this Congress gave to the Administration's economic plan last year. This year, we urge you to use the procedures of deliberation that protect the Congress from the revenges of hasty, unexamined proposals. The credibility of Congress rests on its ability to examine, fashion and choose alternatives. It is very important right now that Congress be credible in the eyes of the nation as the realization that Reaganomics, however laudable the goals of economic revitalization, is pushing the nation into a deeper economic slump. During a time of crisis, it is necessary that people believe in our national leadership -- this is the year for Congress to lead. This year, we urge you not to use the reconciliation process beyond what was intended in the Budget, Control and Impoundment Act of 1974. The price is too high for everyone.

We hear about the price of the current economic program for school districts everyday. Just this week I am aware that we heard from Duluth, Minnesota; Lowell, Massashusetts; Syracuse, N.Y. and Taylor, Michigan, among others. In Duluth, property taxes are being raised; in Lowell, services are being cut because the local taxing limit has been achieved; in Taylor, the local economy is so poor that the voters cannot pay more local taxes so services are being cut; and in Syracuse, services are being cut but states taxes might raised to help make up for the federal cuts. These four school districts are only examples of what is occurring in much of the country.

The lack of understanding about the role of education as a necessary part of the economic infrastructure required for both a democratic government and a vital economy is the most complete lack that this national organization has seen in a long time at the national policy level. In addition to the claim that drastic public education cuts are required to achieve economic recovery, which has no legitimacy either for the long-term or short-term economic recovery, the Administration uses several other arguments for education funding cuts. I want to deal with several of the ones most used. As you will see the other arguments are nearly as spurious.

Administration Argument #1:

The federal share of the average school district budget is so low the federal cuts will not hurt.

FACT: The Federal government provides between 9% and 10% of the average school district budget -- in the cities and in some geographical locations the percentage is much more. Eighty percent of a school district's budget goes to pay personnel costs. The rest is used for capital maintenance, transportation, and curricular needs. The average school district has less than 2% flexibility in that budget after fixed costs. The squeeze on school budgets has held down teacher salaries for the past 9 years. So far, the squeeze has come from general economic factors and, in the last 2 years from local and state levels. Now the federal cutbacks are compounding the fiscal pressures on school district. A cut in federal funds really does hurt school districts. To absorb the federal funding reduction, school districts are cutting educational services such as remedial programs, lunch programs and general education. In the process, teachers are being laid off. Our data indicates that it costs the average school district $2 for every $1 in federal cuts. The decreases in funding are now forcing school districts to go to the personnel part of the budget and lay off people -- which increases the unemployment costs to the district.

Administration Argument #2

School district enrollments are dropping, so less money is required.

FACT: During the explosive enrollment growth of the 1960's and early 1970's, what school districts did was to construct buildings. Now, it is true that we are closing buildings in some cases. Nevertheless, school costs have rapidly moved upward in response to inflation and energy costs. In addition to these factors, there are new expensive responsibilities such as educating handicapped children. Long deferred maintenance costs on the physical infrastructures of schools are now also beginning to take their toll. Just at the time when enrollments are slowing to the point where districts could catch their breath, the recession cutbacks are hitting from the local and state levels compounding the impact of the federal cuts. Just because there are not as many school children in the population does not decrease their importance as a high national priority. In fact we must be even more careful to educate this decreasing national resource -- our future economic security (not to mention my social security check) is dependent upon it.

Administration Argument #3

Education programs should be cut because federal education programs undercut local control of the public schools.

FACT: There is no group of elected officials to whom the concept "local control" means more. To us, the words "local control" are not rhetoric -- what these words mean is the preservation of the capability for local communities to set their own priorities for education of children. We will be the first to admit that some federal programs need simplification and that there was a proliferation of small programs with narrow purpose that needed consolidation. We have consistently made these recommendations to Congress. But never did we suggest that having less local fiscal flexibility brings more local control. On balance, this Administration may have done more to harm what little control local communities had over their educational priorities in the last year than they have helped with their deregulation and consolidation efforts. Frankly, we no longer believe that this Administration has any concern about whether communities have control over their schools -- they do not see the health of the educational system as anything about which to be concerned. Such problems, they claim, are the business of the local and state levels of government -- not the national level. These words "local control" and all the other words that go with them, such as "deregulation, consolidation, and excellence," are simply ways to make the American people believe that real harm is not being done as the Administration systematically shifts its domestic responsibilities to the local and state governmental units. As one school board member said when she heard that local control was being used as an excuse to cut still more federal funds: "I just wish they would allow us enough funding so I had just a little local control -- all I want is just a little."

We realize that all of the funding for education is under 2% of the total federal budget and that the economic crisis facing the nation is very large. We also know what it feels like to have everyone say in the face of budget difficulties that they, of all people, should not be cut. But I feel that our case is solid.

One, elementary and secondary education has been absorbing the brunt of the education cuts -- the Administration has made it quite clear that if we do not help them reduce the higher education entitlement programs that all of these increases will come from cuts in our programs. The pressure has been great, but we have not succumbed. We ask that you do not either.

Two, the relationship between the future functioning of the nation in every way -- socially, economically and militarily -- is dependent upon an educational system that is available to all individuals. There is a national interest in education and a place for a strong federal role that works in conjunction with the governance of schools at the local level.

Three, cutting education doesn't do a thing for the economy. Cuts at the federal level means tax increases at the state and local level. It is a myth to believe that the federal tax reduction from education cuts is flowing into economic reinvestment. If taxes are not raised at the local and state levels to make up the difference, the federal government still pays the cost -- the cost of unemployment.

Fourth, there is not waste and fraud in federal education programs. Overall they are well administered. Our problems have been over-regulation and program proliferation -- these are problems with a bit of cooperation that can be solved. The Reagan response is, at best, an over-reaction to kill programs that just needed readjustment to make them do their job better.

Outside of education, what else can be done? We would recommend the following areas.

1. Look closely at every program. Every year the education programs are scrutinized by the appropriations committee. No program should just grow and grow without the annual oversight of the Congress. The practice encourages abuse. Education has benefitted programatically from this process -- so would most of the programs now being dubbed with the uncomfortable title as the "uncontrollables".
2. Readjust the tax cut so that it is fair. Most people will give up their $7 a week for clean air, water and a chance at a small business loan or a college opportunity for their children. Plug up the tax loopholes that were so indiscriminately given.
3. Look closely at the defense program -- I was concerned at the amount of weapon hardward we had in that budget. Can anyone spend these major defense expenditure increases wisely?
4. Take action that will have us meeting the recession with programs rather than unemployment benefits. The money is being spent one way or the other -- it should be on programs that have folks doing rather than sitting and waiting for the unemployment check.

NATIONAL SECURITY

THURSDAY, MARCH 18, 1982

U.S. Senate,
Committee on the Budget,
Washington, D.C.

The committee met at 9:08 a.m., in room 6202, Dirksen Senate Office Building, Hon. Pete V. Domenici, Chairman, presiding.

Present: Senators Domenici, Kassebaum, Hatch, Kasten, Gorton, and Exon.

Staff present: Stephen Bell, staff director; Robert Helm, senior analyst for national security and international affairs; Lizabeth Tankersley, minority staff director; and Robert D. Sneed, analyst for national security and international affairs.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman Domenici. The hearing will please come to order.

This morning we are privileged to have Senator Tower appear before the committee to discuss aspects of U.S. defense spending. While it is rare for a member of the committee to testify before it, Senator Tower's responsibilities as chairman of the Senate Armed Services Committee makes it especially appropriate for us to hear him today.

READJUST FISCAL YEAR 1983 BUDGET

As is well appreciated here, the economic situation confronting the United States today appears to leave Congress with no choice but to impose some readjustment on the fiscal year 1983 budget request. Adjustments in the level of defense spending must be considered as part of that process. This issue was well discussed when the Secretary of Defense appeared before the committee some weeks ago. A variety of alternative budget plans are circulating through Congress now and all envisage some level of defense spending different from the President's request. I can assure you that every attempt was made to devise some way to accommodate the President's full request for national defense but no suitable spending pattern resulted from this attempt.

The Budget Committee is the instrument for presenting budget priorities before the entire Senate. By its nature it cannot delve too deeply into the details of various program elements of the budget. Its responsibility is to develop the broad parameters of congressional fiscal policy. It is not a committee of expertise on individual defense or nondefense programs. For better or worse the Budget Committee's focus must be upon broad economic and fiscal goals. Oftentimes these goals will be expressed in terms of deficit spending patterns, growth in GNP, or some percentage of real program growth.

Senator Tower's perspective on the question of defense spending will be important because his authorization committee will be charged with the responsibility of making any changes in defense spending the Congress may mandate in the context of the budget resolution. I am hopeful that he will give the committee his perspective on what the implications of possible alterations in defense spending will be for U.S. security considerations.

NECESSARY LEVEL OF DEFENSE SPENDING

As I mentioned during Secretary Weinberger's appearance, the changes in defense spending now being contemplated cannot be entered into lightly or without a keen appreciation of the costs and dangers which may have to be accommodated. The question of what level of defense spending is necessary to support national security objectives and U.S. global policy goals is a profound one which America's previous economic good fortunes perhaps gave it the luxury of never having to address adequately. So long as we were the strongest and richest we could afford to be less than exact in how we used our resources for national security. This is no longer the case today. Our economic dilemma requires we spend for defense in a manner specifically and diligently designed to support priority defense mission requirements.

Senator Tower has already suggested that a lower level of defense spending may require the United States to accept reductions in force structure rather than a return to the pattern of underfunding readiness and modernization which resulted in the hollow posture of the 1970's. Hand-in-hand with such a conclusion goes the implication that existing defense missions would have to also be adjusted. There have already been suggestions that U.S. strategy is overextended in terms of the capability to back it with military force. The United States cannot tolerate a decision to reduce its defense responsibilities akin to the British decision to withdraw from all their commitments east of Suez. There is no one to take our place. However, if we are to continue to field a global military presence within our economic resources more selectivity in forces and strategy may be essential.

It is perhaps ironic that now, when a consensus to rearm has been at last forged, we find ourselves constrained economically. But the twin priorities of national defense and economic vitality must be accommodated to the maximum. I hope Senator Tower's views will aid the committee in accomplishing this goal.

You may proceed as you see fit.

First, let me ask Senator Kasten, do you have any opening remarks?

Senator **Kasten**. I do not, Mr. Chairman.

Chairman **Domenici**. Senator Tower.

STATEMENT OF HON. JOHN TOWER, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator **Tower**. Thank you, Mr. Chairman, and thank you for the opportunity to appear.

I would like to go ahead and read my statement rather than simply summarize. Matter of fact, this is, in effect, a summary statement, and we have tried to flush it out somewhat with charts and various other appendices.

I will be glad to respond to questions after I have completed my statement.

My long experience as a member of the Armed Services Committee has led me to the conclusion that it would be a grave error to make significant near- and long-term reductions in the defense budget request now before us. In the course of this testimony, I will review the more significant factors that support this view.

GLOBAL PERSPECTIVES

There can be no question that the first point of departure should be an explanation of U.S. foreign policy of objectives and our role in today's troubled world.

We have become, in a sense, an island nation heavily dependent on external sources for energy, vital metals, and minerals, and on the international marketplace. Open sealanes are essential to our economic health.

The magnitude of U.S. interests in Europe, Asia and the Western Hemisphere is represented by our participation in 8 formal treaties involving national security commitments to 42 countries.

The need to fulfill these commitments is driven by a clear perception of national interest. Our military presence overseas is a result of the prudent military axiom which tells us to defend our interests as close to the source of danger, and as far from our borders as possible. The basic objective of our overseas presence is the defense of North America.

Thus, through geographic circumstance and historical and evolutionary processes, our national interests have been determined, and our foreign policy commitments developed to support them. These commitments, when combined with an analysis of potential threats, dictate our military requirements.

In recent years, the threats to our interests have increased, demanding the attention of the United States and its traditional allies to repairing unfavorable shifts in the military balance in Europe and in Asia. However, additional threats have arisen in areas not covered by the system of Western alliances, and in Latin America, where our strategic vulnerability must not be underestimated.

Against these military requirements, the Joint Chiefs of Staff have long recommended an acceptable risk force structure which would support our national security commitments. We are currently well below that recommendation. That is the basis for the judgment of our military leadership that U.S. forces are stretched too thin and that, in the event of serious crisis or conflict, the risks of an unfavorable outcome are too high.

There must be no illusion that a significant overall reduction in defense will not be noticed by our allies and adversaries, and will not be reflected in a reduction of our capability to wage and sustain combat. Such reductions will be noticed and will once again cast meaningful force improvements into the uncertain future with a concomitant increase in strategic risk. No Senator can separate himself from the foreign policy consequences of defense budget reductions.

THE DEFENSE BUDGET IN PERSPECTIVE

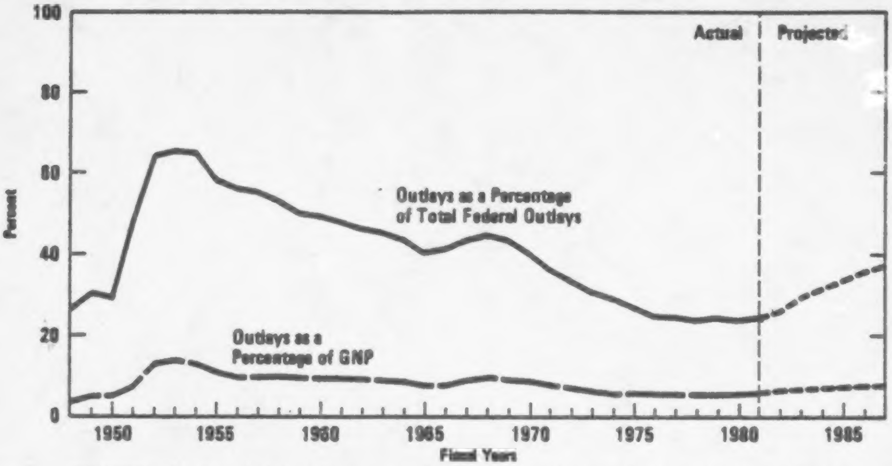
In addition to reviewing the manner in which defense spending supports foreign policy commitments, we should also take a cold, hard look at the annual investment in defense as an element of our total economic effort.

This administration was elected on a policy platform which fully articulated its intent to moderate growth in spending for social programs and increase spending for defense. Though painful to some, this proposed change in priorities is being implemented in a manner much less dramatic that popularly believed.

According to the Congressional Budget Office, administration data indicate that the national defense function would increase from 6.1 percent of gross national product in 1982 to 7.3 percent in 1986 and 1987. Figure 1—I have, by the way, distributed these charts and appendices have been distributed to you—shows the post-World War II trends for defense outlays as a share of GNP and of total Federal outlays. Over the 1983–87 period, the administration's proposed outlays would average 6.9 percent of GNP. CBO notes that this is higher than the average for the preceding 5 years, 1978–82, during which the average defense share of GNP was 5.4 percent. It is lower, however, than the 10-percent average for several years following the Korean war.

FIGURE 1

National Defense Outlays as a Percentage of Total Outlays and of GNP



SOURCES: For historical data, Department of Defense; for projections, *Budget of the United States Government, Fiscal Year 1983.*

CBO goes on to note:

> Relative to total Federal unified budget outlays, national defense outlays from 1978 to 1982 were about 25 percent—the lowest share since World War II. The administration's 1983 budget indicates that this share would increase to about 37 percent by 1987—a level last reached in 1971. In the post-World War II period, national defense as a percent of unified budget outlays exceeded 37 percent each peacetime year from 1954 to 1970.

I might note at that time, too, we had measurable superiority over the Soviet Union.

Now, apart from demonstrating that the pending defense budget requests are reasonable in an historical, macro-economic context, figure 2, which you have before you, also shows that social security and other payments to individuals, so-called entitlements, still represent the largest share of public spending and will retain that position through the next 5 years. Nevertheless, there are those in the Senate who have the false impression that domestic spending is being shorted in the President's budget. In reality, the President's budget calls for substantial increases in spending for domestic programs.

FIGURE 2

	PERCENT SHARE OF UNIFIED BUDGET				
	FY 81	FY 82	FY 83	FY 84	FY 85
National Defense	24.3	25.9	29.2	31.4	33.6
Social Security	21.0	21.3	22.9	23.4	23.3
Other Payments to Individuals	27.2	27.1	25.4	24.4	23.9
Net Interest	10.5	11.4	12.7	12.2	11.6
Other Nondefense	17.1	14.2	9.8	8.6	7.6
Unified Budget Outlays	100.0	100.0	100.0	100.0	100.0

SOURCE: Budget of the United States Government, Fiscal Year 1983, pp. 3-21, 3-23, 9-61.

In my view, some reductions in entitlements may be necessary. However, my principal concern is that this committee or some prominent coalition might agree to cut defense, with some hoping to reduce the deficit but others actually intending to add money to domestic programs, in which case the defense program would go down and the deficit would remain high—two unacceptable outcomes.

DEFENSE PROGRAM ANALYSIS

For the reasons outlined above, I believe we can safely set aside the argument that the Federal budget is abnormally skewed in favor of defense. In historical context, President Reagan's budget still falls short of previous levels of defense spending. Given our greatly weakened defense posture, one might ask whether, in fact, the President is doing enough. I might digress for a moment and note that I saw in the Washington Post this morning where the Committee on the Present Danger has asked whether what the President recommends is enough. They feel that $1.6 trillion over the next 5 years is $100 billion too little. They say it "will not halt the unfavorable trends in the U.S.-Soviet military balance."

I am not here to defend the President's request line by line, But I should take the time to note that, overall, the fiscal year 1983 defense program shows balance and continuity with prior years. If you look at figure 3, there are certainly major shifts in policy and programing but, in my judgment, none sufficient to cause radical changes or imbalances in our capabilities. Offset folios 516 to 517 insert here

MAINTAINING THE DEFENSE PROGRAM

Another important measurement is the level of effort required to maintain the total defense program from year to year. Secretary Weinberger has stated, and CBO has confirmed, that 93 percent of annual defense outlays are already committed when the fiscal year begins. These outlays are composed of military and civilian payrolls, a minimum level of operations and training, and commitments from prior years. Thus, as figure 4 indicates, even by eliminating all new investment initiatives, the minimum operating cost of defense would be $200.8 billion in fiscal year 1983. There are proposals before you that do not fund these prior year commitments and minimum operating level.

FIGURE 3

Department of Defense
Financial Summary
(in percentage amounts)*

Summary by Budget Title	FY 1972	FY 1976	FY 1980	FY 1981	FY 1982	FY 1983
Military Personnel	30.3	26.6	21.8	20.9	20.1	18.6
Retired Pay	5.1	7.7	8.4	7.8	7.0	6.4
Operation and Maintenance	27.8	30.1	32.8	31.4	29.4	27.3
Procurement	24.2	22.0	24.8	27.1	30.5	34.7
Research, Development, Test, & Evaluation	9.9	9.9	9.5	9.4	9.4	9.4
Special Foreign Currency Program	0	0	0	0	0	0
Military Construction	1.6	2.2	1.6	1.9	2.4	2.1
Family Housing & Homeowners Asst. Prog.	1.1	1.3	1.1	1.2	1.1	1.1
Revolving & Management Funds		.1		.3	.2	.4
Total-Direct Program (TOA)	100	100	100	100	100	100

Summary by Program	FY 1972	FY 1976	FY 1980	FY 1981	FY 1982	FY 1983
Strategic Forces	9.4	7.5	7.8	7.2	7.5	9.0
General Purpose Forces	33.4	34.3	36.8	38.8	41.1	41.3
Intelligence and Communications	7.1	7.0	6.4	6.4	6.5	7.0
Airlift and Sealift	1.5	1.3	1.5	1.7	1.9	1.7
Guard and Reserve Forces	4.3	5.6	5.5	5.6	5.4	5.6
Research and Development	7.5	9.0	8.3	8.1	7.9	7.8
Central Supply and Maintenance	11.3	10.2	10.8	10.0	9.0	8.6
Training, Medical, Other Gen. Pers. Activ.	19.9	22.5	20.6	19.9	18.6	17.1
Administration and Assoc. Activities	2.3	2.4	1.8	1.9	1.7	1.7
Support of Other Nations	3.5	.3	.5	.5	.5	.3
Total-Direct Program (TOA)	100	100	100	100	100	100

*percentage amounts may not add to 100 due to rounding

FIGURE 4
THE RECURRING COSTS OF DEFENSE

Outlay Dollars in Billions

	FY 1980		FY 1981		FY 1982		FY 1983	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Prior Year Programs	32.3	24.3	44.9	28.8	52.5	28.7	67.8	31.4
Payroll	64.1	48.3	73.4	47.0	82.0	44.8	90.7	42.0
Operating	26.6	20.0	23.5	15.1	35.5	19.4	42.3	19.6
Subtotal	(123.0)	(92.7)	(141.8)	(90.9)	(170.0)	(93.0)	(200.8)	(93.0)
New Investment Initiatives	9.8	7.3	14.2	9.1	12.8	7.0	15.1	7.0
Total	132.8	100.0	156.0	100.0	182.8	100.0	215.9	100.0

	FY 1984		FY 1985		FY 1986		FY 1987	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Prior Year Programs	86.8	35.1	104.9	36.7	125.9	38.9	139.5	39.2
Payroll	97.6	39.5	104.6	36.7	111.0	34.3	117.3	32.9
Operating	38.6	15.6	45.7	16.0	54.2	16.7	61.5	17.3
Subtotal	(223.0)	(90.2)	(255.2)	(89.4)	(291.1)	(89.9)	(318.3)	(89.4)
New Investment Initiatives	24.0	9.7	30.2	10.6	32.8	10.1	37.7	10.6
Total	247.0	100.0	285.5	100.0	324.0	100.0	356.0	100.0

Explanatory notes to table:

1. New investment initiatives include spending from current year Procurement, RDT&E, and MilCon programs (TOA).
2. Computations for FY 1980 and FY 1981 are freefall calculations.
3. An adjustment was made between operating costs and new investment initiatives in FY 1982 and FY 1983 to meet 7 percent allocation to new investment initiatives. Freefall calculations produce 9.7 percent and 10.6 percent for this category in FY 1982 and FY 1983, respectively.
4. Calculations for FY 1984 through FY 1987 are freefall except the negative wedge required to come to Topline was prorated between prior year programs and new initiatives.

WHERE TO TAKE SIGNIFICANT BUDGET REDUCTIONS

Understanding how defense spending supports foreign policy, and with a broad perspective of our level of effort in defense, I can now outline in more detail my perspective of the options facing the Armed Services Committee.

First, let me assure you that the Armed Services Committee will assert its influence as the Senate's advisory body on the issues of national defense. I realize that the Budget Committee must work in a frame of reference which includes national defense as a part of the Federal budget. But I need not remind you that, regardless of the assumptions contained in any budget figure relating to national defense, it will be the Armed Services and Appropriations Committees that determine where and how defense dollars will be spent. Without the more detailed analysis which is part of the normal authorization process, it would be a mistake to assume that some magic percentage or formula will allow you to make safe cuts in defense.

Second, I can also assure you that there will be adjustments made to the President's request. It is no secret that defense budgets take hits on Capitol Hill. In the period 1969 to 1979, Congress reduced authorization requests by an average of nearly $3 billion each year. Stated another way, the Presidential requests for funding were underfunded by $30 billion over a 10-year period. I wish we had that $30 billion for defense.

In the more recent past, the Senate Armed Services Committee has not hesitated to alter or eliminate programs we believed could be deferred. In fiscal year 1982, the committee made gross reductions totaling nearly $2.5 billion. This included major changes in programs such as Patriot, Trident, and CX, and outright cancellation of *Oriskany* and *Sotas*.

But beyond demonstrating that we know how to make reductions, the Armed Services Committee is also aware of the major deficiencies and vulnerabilities of U.S. forces, we well as inefficiencies in defense production, which must be remedied. Thus, the savings referred to earlier were plowed back to fund other validated requirements, such as equipment for reserve components and a comprehensive package of command and control improvements.

BUDGET OPTIONS

Before analyzing the Armed Services Committee's options, I should make some general comments on my perspective of the many proposals suggested to reduce defense spending.

First, we should acknowledge the genuine and effective efforts of Secretary Weinberger to improve the management efficiencies within the Department of Defense. We should recognize that cries of "waste, fraud, and abuse" are not sufficient to guide us in making responsible defense decisions.

Second, we should also understand that congressional interests and action on the defense budget have, at times, increased the cost to the taxpayer but with little or any improvements in military capability. In other words, we must share parts of the blame here in Congress for increasing defense costs.

Now, across-the-board percentage reductions do not explain how or where cuts should be taken. Many proposals claim to be more specific about where cuts should be made, but they only go as far as appropriation titles. This may seem specific from the Budget Committee's perspective, but it is considered a blanket reduction by the committees that work in more detail. Finally, there are proposals which provide complex formulae made up of zero growth, unconstrained growth, and targeted percentage growth. Apart from the fact that balanced and consistent programing is difficult to achieve under such assumptions, the more obvious point is that the Budget Committee is ill-equipped to handle such detail.

There are numerous ways to address our options in assessing the allocation of defense dollars. The three most prominent include: by appropriation title—such as personnel, R. & D., procurement; by major force program—such as strategic, general purpose, lift, supply; and by program objectives. In response to the potential for significant defense budget reductions, I will assess my options in terms of the program objectives and priorities which serve as the main pillars of defense spending: readiness, modernization, and force structure.

READINESS

Because there seems to be wide agreement that readiness must not suffer as the result of defense cuts, I will not spend much time assessing potential reductions in this area. However, I should mention some important readiness factors which may otherwise escape the notice of my colleagues.

Readiness refers to the near-term ability of units to fulfill their assigned missions. It is based on the number and mix of personnel, and on the availability and condition of equipment. Obviously, the reason readiness is sacrosanct today is because it had suffered in the past. But so-called readiness accounts do not exist. Only balanced improvements in capability across the board contribute to solid readiness.

For example, some budget proposals will reduce or freeze military pay. Yet one of our most recent readiness problems has been related to personnel retention. Moreover, it has been at conqressional initiative that this problem is being turned around. As has happened in the past, I can guarantee that any backing off from our commitment to improve military compensation will have a negative effect on retention and personnel readiness.

Another area of concern is widespread equipment shortages in ground forces. Even though personnel improvements have produced some increases in overall readiness, a basic lack of equipment continues to be the Army's most fundamental readiness problem. Equipment-on-hand is the major factor in low unit status reports, or C-ratings. Figure 5 illustrates some major equipment shortfalls that affect the Army's ability to go to war today.

FIGURE 5

ITEMS	QUANTITY SHORT AGAINST GO-TO-WAR REQUIREMENTS	UNIT EQUIVALENT SHORTAGES
Personnel carriers	2888	49 Mechanized Infantry Battalions
TOW carriers	698	32 Mechanized Infantry Battalions
Cargo carriers	404	22 Field Artillery Battalions
Tanks	2146	40 Tank Battalions
Howitzers, 8 In SP	204	17 Field Artillery Battalions
Howitzers, 155 SP	237	13 Field Artillery Battalions

The message is simply this: Do not expect to sustain, let alone improve, the current readiness of our forces if you intend to generate savings in personnel compensation or procurement. Maintaining readiness is a multifaceted problem, and higher operational and training tempos, which many equate with improved readiness, will actually degrade the readiness of our forces if those forces are undermanned and underequipped.

For example, the Navy would, in principle, prefer to maintain a higher operating profile in the Indian Ocean. But the facts are that, spread among too few ships, a high operational tempo in this region is a strain on the fleet and actually degrades readiness. The long-term solution to this problem is not more steaming time, but more ships.

I am certain that the Armed Services Committee agrees with the priority given to improving readiness in the many defense budget proposals being considered. However, our ability to follow through with readiness improvements requires that we be allowed access to the full range of DOD budget categories and not restrict ourselves to growth in narrowly defined budget areas.

MODERNIZATION

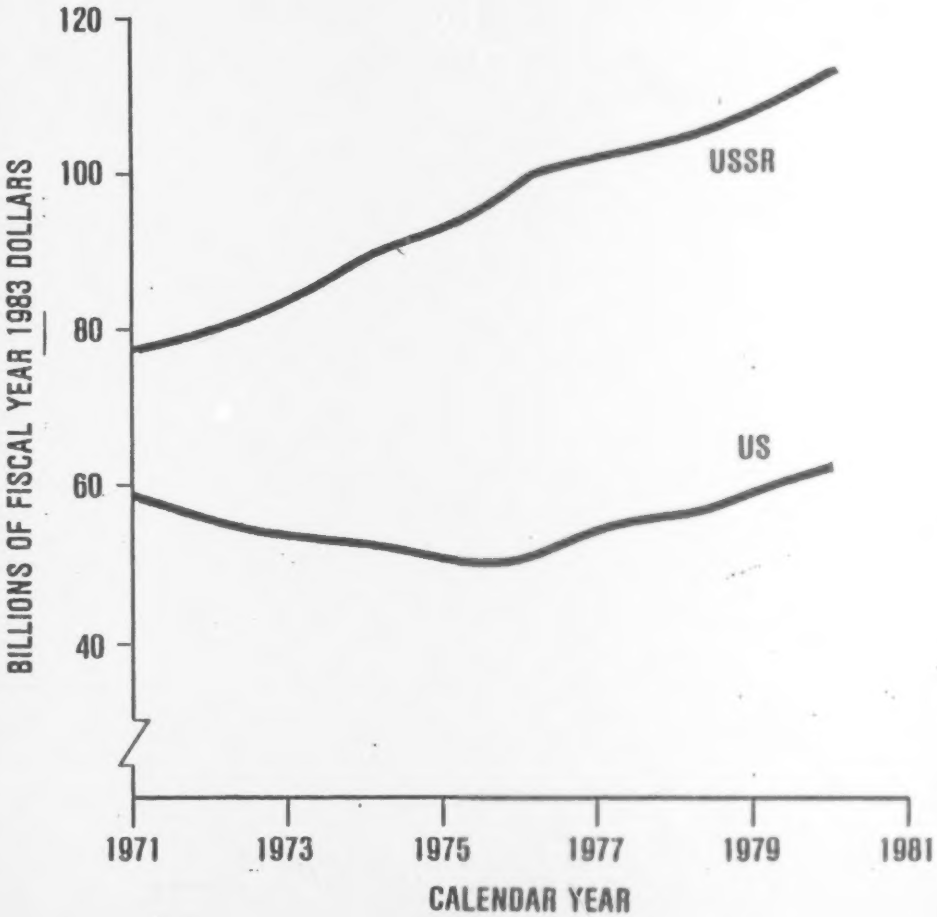
The second option is to reduce modernization of investment.

Since the early 1970's, the services have striven to implement a modernization program that would be responsive to the changing threat. By all accounts, these modernization plans were underfinanced; and we have paid dearly in terms of money lost to inflation and inefficient rates of production, overlapping resource requirements, and reduced capabilities. Major modernization programs are now underway for strategic and ground forces; significant investment requirements for tactical aircraft remain; and an expanded shipbuilding program is planned.

Each of these modernization programs is required to meet basic defense and foreign policy objectives, especially so since there is a growing military threat which impairs our ability to fulfill those objectives. In fact, the relative decline in the military balance is a basic reflection of our lack of investment in procurement and modernization compared to our adversaries, as shown in figure 6. As classified briefings have indicated, lack of investment translates directly into noncompetitive production rates compared to our adversaries.

FIGURE 6

MILITARY INVESTMENT COMPARISON



In addition to being directly related to meeting a larger and more sophisticated threat, modernization is necessary to achieve sound force management objectives.

First, we must meet recurring requirements in order to "stay even." Our current annual production rate for tactical fighters is less than the number lost to attrition. Second, as indicated in figure 7, the average age of equipment inventories is continuing to rise past desired levels. Modernization of both equipment inventories and our physical plant is central to prudent maintenance management. In terms of long-term force management, we are winning no prizes for good business sense.

FIGURE 7

AVERAGE AGE OF THE INVENTORY

Component	Approximate Inventory	Desired Average Age/Item	Current Average Age/Item
Army	25,000 tracked	7 years	12 years
	65,000 wheeled	6	85% overage by FY 1987
Navy	521 ships	8	16
Air Force	9,000 aircraft	9	12

As in the past, the Armed Services Committee will reduce or cancel programs which we believe do not make a sufficient contribution to the total defense effort. But for reasons of an expanding threat, lack of previous investment, and prudent materiel management, I will support ongoing modernization plans.

This effort must be balanced. We should not make the mistake of trading systems and capabilities like baseball cards. An appropriate balance among strategic, land, sea, and air forces—and the infrastructure required to support them—is essential to maintain the flexibility required by our political leadership. Moreover, a balanced and sustained modernization effort translates into a warm industrial base which will provide a hedge against mobilization and force expansion scenarios.

I should also note that there are no immediate fiscal advantages to reducing the pace of force modernization. Figure 8 suggests that because the spendout rate for modernization programs is so slow, major cuts in defense procurement will have no meaningful impact on the budget deficit for this year.

FIGURE 8

ACCOUNT	HYPOTHETICAL REDUCTION IN BUDGET AUTHORITY	REDUCTION IN FY 1983 OUTLAYS
Weapons & Tracked Combat Vehicles Procurement	$1 billion	$60 million
Aircraft Procurement	$1 billion	$92 million
Shipbuilding	$1 billion	$58 million

Naturally, I understand, and frankly I am sympathetic, to the Budget Committee's need to reduce spending in the out-years. However, the overall requirement for modernization is compelling; and cutting programs in fiscal year 1983 in no way implies that they are unnecessary.

Let us keep in mind that we cannot simply zero some of these "big ticket" procurement programs without replacing them with some other capability. The current debate over the M-1 versus the M-60 tank illustrates a good point—namely, that we could procure 776 less effective, less survivable M-60A3 tanks in lieu of the 776 M-1's requested by DOD, and we would achieve a net outlay savinqs of only $28 million in fiscal year 1983. On the other hand, by actually deferring programs, they would only reemerge later in the 5-year plan; we would go that much longer without those added capabilities and at that much greater risk; and we would pay more than we would if the programs were funded in fiscal year 1983.

Slowing the pace of modernization is a prescription for military inferiority. It is bad military policy and bad fiscal policy. I, for one, would not support sending our boys to the field with obsolete weaponry simply because Congress failed to modernize our military forces properly.

FORCE STRUCTURE

In the face of significant budget reductions, the third option is to reduce force structure.

Because our force structure is not now large enough to support effectively our foreign policy commitments, my initial impulse is to reject such reductions. However, in committing ourselves to near-term readiness and to redressing inefficiencies in defense production and quantitative and qualitative deficiencies against the threat, there may be little alternative to reducing the overall size of our forces should significant defense cuts occur.

The nature of this deficit problem contributes significantly to this conclusion. Outlay reductions from procurement cuts are so low that, in my view, the damage done to the overall defense program would outweigh any marginal reduction in the deficit. As shown in figure 9, the greatest impact on the deficit would come from reductions in the fast-spending operation and maintenance and personnel accounts—the basic components of force structure.

FIGURE 9

COMPOSITE OUTLAY RATES FOR FY 1983

Procurement	12.52%
RDT&E	58.80%
O&M	80.68%
Personnel	97.13%

Rather than make general reductions in personnel and O. & M. which are unrelated, the better management method is simply to reduce force structure. By taking force structure, we will ensure a balanced reduction in operations, training, logistical support, and civilian and military personnel.

Figure 10 illustrates the immediate outlay value of potential force structure reductions. I should emphasize that I do not favor these force structure reductions but will pursue them if budget pressures become too severe.

FIGURE 10

OUTLAY VALUE OF POTENTIAL FORCE STRUCTURE REDUCTIONS

Structure	Annual Operating Cost (Personnel, O&M)
1 Infantry Division	$900 million
3 Tactical Fighter Squadrons	$150 million
1 Carrier Battle Group	$600 million
Ship Retirements	$170-400 million

While some might charge that this is pure hyperbole, I would suggest they review the budget amendment of last October and the priorities set by Secretary Weinberger in March of 1981. The record will show that defense priorities consist of strategic force modernization, readiness, modernization, and force structure. Force structure growth is the last priority in the current 5-year defense plan, and remains the last priority should significant reductions be imposed. When the services made budget reductions last fall, all three took them out of force structure. The chiefs of staff are united in their view that they would rather have a slightly smaller, fully manned and well-armed force structure than one which is, in effect, hollow.

Furthermore, some force structure reductions must come from overseas. During the recent past while the threat has increased and commitments have increased, we have attempted to stretch our forces to do more with less. For the past 5 years, the number of active duty forces stationed overseas has increased by 9 percent while total strength has declined by 2 percent. We cannot support an effective overseas presence with a smaller base at home. Thus, in the final analysis, reducing force structure means that some foreign policy commitments will not be met, or some of our vital national interests abroad will not be defended.

SUMMARY

In summary, Mr. Chairman, and members of the committee, I hope this puts into perspective the broad defense and foreign policy implications of the decisions being made by the committee.

President Reagan's proposal is not a budget aimed at superiority that can be lowered to settle for essential equivalence. Rather, the President has plotted a prudent course. If we, in Congress, fail to follow that course, we will concede superiority to the Soviets.

This defense budget will begin to redress deficiencies in forces that have grown between ourselves and the Soviets. We cannot wish away those deficiencies.

My strongest plea to this committee is that we do not sacrifice the defense of this country for some momentary budgetary comfort.

Thank you, Mr. Chairman. I will be prepared to respond to questions.

Chairman Domenici. Thank you, Senator Tower.

I greatly appreciate the perspective you have offered us. I think you know that this committee appreciates that we do not line item, as you stated. We set broad general numbers and it is up to your committee and the Appropriations Committee to determine details. We do not have nor do we contemplate developing the expertise that your committee has or the Defense Appropriations Subcommittee, so I hope when you hear members of this committee talk about assumptions you understand that they have never been binding. They are merely intended to add some degree of logic to somebody's assessment. Even if we were adopting the President's numbers, we would say this assumes, and it is no more than that.

Senator Tower. May I comment on that just a second, Mr. Chairman?

Chairman Domenici. Indeed.

PROGRAMS MAY BE SACRIFICED

Senator **Tower**. I think, however, there is a tendency on the part of some people who advocate cuts to say, well, we can do away with this program and that, so let us cut the budget by this much because here is a bad program to cut cost overruns. In our judgment, that might not be the most prudent course of action. If we are forced to take a cut, we might not take it in the area that that person recommended and, in fact, we might, in some instances, go ahead and fund a program that we have had problems with, that we have had cost overruns on because it is essential and we have to have it to modernize our force. We might even sacrifice a program that is on time because it is a lower priority program.

So I think that people who advocate these cuts should understand that.

Chairman **Domenici**. The converse of my earlier remark sometimes also applies.

You were not on the committee when the Hollings-Domenici mark—that was it—moved the trend line from negative up to 5 percent real growth. We said we assume we need the following things and that would fit within the increase. That did not turn out that way because your committee and the appropriators said, yes, we need the money but the assumptions are not in all respects what we wanted. And I think we could go back and look at those assumptions and your committee's experience and the appropriators acted on the increase in the way they saw was prudent. So I think it worked that way also when we added substantially in midstream of the Carter administration.

I am going to yield to Senator Exon, and my notes indicate, Senator Gorton, you are next, Senator Hatch, Senator Kassebaum.

Senator **Exon**. Chairman Tower, I want to join my colleagues in welcoming you here this morning. I thought your statement was well thought out, well addressed and, of course, I and most of us in the U.S. Senate consider you not only the leading spokesman for strong military, but a very articulate spokesman as well. So I appreciate the fact that, as a member of this committee, and chairman of the Armed Services Committee, on which I serve, that you came here and outlined what I think is a very worthwhile proposal that we should carefully consider.

I would like to go into some of the areas that you and I have discussed to some extent, either in the Armed Services Committee or otherwise.

ACROSS-THE-BOARD CUT DOES NOT ADDRESS REAL PROBLEM

I certainly agree with you, Mr. Chairman, that a percentage across-the-board cut, as some have recommended, just does not address the real problems, and that is why I say that with regard to some of the questions that I would like to pose to you now, if you could possibly answer them.

It is true that this is not a line item committee. But it is also true that in this particular case I suspect that what comes out of this committee as the part of the first concurrent resolution recommendation to the Senate, like limiting a target that will be attempted to be reduced from there on the floor of the U.S. Senate and possibly later cut further or restored by the appropriations process. So I think probably this year the figure that we come out of here with could probably have more importance than ever before.

First, I would like to ask you about the article in the Washington Post this morning that you referred to, that I also noticed, with regard to the Committee on the Present Danger, and I would like to quote from the first paragraph of that article to lead into a series of questions.

> A conservative committee that once counted Ronald Reagan among its members said yesterday that the so-called "window of vulnerability" to Russian missile attack that Reagan pledged to close actually "will open wider—over the next 5 years—due to the administration's decisions."

Mr. Chairman, I am wondering if you agree with that statement and, in that regard, let me ask you, what changes you would recommend that we make, if any, in the overall strategic planning on the part of the administration with regard to the national security commitments of the United States?

CLOSING THE GAP

Senator TOWER. I do not think one can say with certitude that it will either open wider or close or begin to close the gap. Because a great deal depends on what we do and on what the Soviets do in that timeframe.

Now, I think you are well aware of the fact that I have had disagreements with the administration over MX basing mode, for example. I believe that had we proceeded with the previous program for MX baseing, it would have been in place earlier.

However, we are looking at options now that may enable us to, in a timely way, deploy the MX missile in a survival mode at a time that we originally projected to do so. But I cannot say with certainty right now. Because these programs are just now being examined, the options to the old MPS basic mode are currently being reexamined. I think a great deal depends on the extent of our ability to go ahead and fund the strategic package that has been offered by the administration, and I believe that if we proceed in a dedicated way with that program, making adjustments in it as we go along, as they are required, based on the threat—not based on budgetary considerations but based on the threat—that we can begin to close that window in this decade, perhaps by the mid-eighties. But one thing should be understood, if our defense budget—if our defense establishment—is driven by budgetary considerations and not by the threat, we are not going to close it. That should be clearly understood.

Senator EXON. Well, Mr. Chairman, you know I would agree with you on that but I want to get back on track, if I can, with the basic thrust of my question, and that is simply this: In your opinion, is the President's overall strategic planning of the administration and the Secretary of Defense done in the most efficient manner, both from the standpoint of budget expenditures and from the standpoint of improving the strategic capability of the United States?

I will throw in one particular question, and I do not know how you feel about this. I for one am very much concerned, while we are spending billions and billions in additions, for defense, supposedly to close the window of vulnerability that we heard so much about during the last campaign, simultaneously, this administration is proposing to unilaterally start disarmament of the United States of America by the pulling out of the Titan missile beginning October 1 at the rate of one a month this particular year.

You know, Mr. Chairman, that somewhere between 31 and 33 percent of our total megatonnage is tied up in those Titans and yet, without any thrust on the part of the administrations, you get comparable consensus from the Soviet Union, we are starting to dismantle the Titans 4 years before we plan to put our first MX missile in what you and I both know are vulnerable holes.

MONEY BEING SPENT PROPERLY

What I am getting at, are you satisfied that we are properly spending the money that we have to spend, regardless of what that amount is?

Senator TOWER. I believe that we are. The Titan missiles, of course, are considered now to be very difficult and costly to maintain and unreliable. It is better that our resources be dedicated elsewhere in modernizing our strategic force, in expending them on the old Titan missiles. I think you will find that your colleagues from the States where those things are located will be very happy to see them go.

Now, in fact, the Titan missile is a soft target missile. It is not as precise as the Minuteman III, certainly not nearly so, and does not have the military value of the MX. The MX, incidently, will fly in less than a year from now. It will be ready to be deployed and, concurrently with that, we are accelerating our cruise missile production and we are also going to be bringing the Trident into the inventory so we will be making compensations with more capable systems.

What we need is urgent hard target kill capability. The Titan missile does not give us the hard kill capability. It gives us a lot of megatonnage, but it is an old and obsolete system, and I think we do not face any considerable threats by retiring it. I think you will find that to be the view of the professional strategic systems community.

Senator EXON. I am not sure that I agree with you on that. The testimony that we have taken in the Strategic Subcommittee would indicate that the most that we could save in the first year of phasing out of these Titans is $87 billion, and it is only 6 or 500 million over a 6 year period.

Now, I would suggest——

HARD KILL TARGET WEAPON NEEDED

Senator TOWER. The point is do they give you a credible deterrent if they are not a hard kill target weapon, which is what we need, a survivable hard target capable weapon? I do not think Titans give you that much extra.

Senator EXON. But we are not going to have the hard kill target until 1986.

Senator TOWER. If you want an urgent soft target capability, Senator Exon, there are many many who suggest that we have too much of that in our inventory now.

Senator EXON. They did not suggest that :in the last campaign.

Senator TOWER. In fact, I believe we have enough soft target kill capability that we can easily miss those 53 Titans which give us a lot of megatonnage but are not precise enough to be good for military targets.

Senator EXON. One last question then, Mr. Chairman.

I would simply say that I agree with the chairman of the Armed Services Committee that we are not going to be able to make any substantial reductions in the outlays for 1983, and I think, all too often, we take shortsighted approaches to our military budget and I think it has to go up massively. I am not sure that it has to go up as massively as the President has recommended, but the last statement I would have to say in this regard could point out what I think is a fault in the overall planning of this administration, is simply this:

If I were a Soviet planner—we hear a lot of talk about in the war scenarios that we go through in the Armed Services Committee—if I were a Soviet planner, I would be worried indeed about the largest 9 megaton warhead that we have, that is presently based in the Titan silos, because if we should take a first strike at the Soviet Union, that Soviet planner should, I think, be worried. Whether or not that 9 megaton warhead on a Titan, if it landed in the center of Moscow or the edges, I would think, have to be a part of their planning, and that is why I think it is foolhardy to start phasing that out until we have some type of hard target-type kill capability.

NEW SYSTEMS ARE OF CONCERN TO SOVIETS

Senator TOWER. The question is, how long do you want to keep those Titans around? I do not think the Soviet planners are worried about that as much as a number of other things. They have given indication that the Titan II is their principal concern. I do not believe that it is. They know that we plan to phase it out. They phase old weapons out of their inventory just as we must eventually do. So I think the prospective of producing new systems that threaten their offensive capability is of much greater concern to them.

Senator EXON. I will have some more questions in the second round, Mr. Chairman.

Thank you, Senator Tower.

Chairman DOMENICI. Senator Gorton.

Senator GORTON. Thank you, Mr. Chairman. Senator Tower, I have three separate subjects on which I would like to ask for your views, at least briefly.

You are, of course, cognizant of the suggestion of Senator Stevens that not only because of some decisions made by our European allies in the economic field, but because they are doing so much less, both as a percentage of their gross national product and in real growth in providing for their own defense capabilities, that we should seriously consider the withdrawal of some portion of our troops in Europe unless there is a greater concern shown there by those nations for their own defense.

I wonder what your views were on that subject?

BEING IN EUROPE IS OUR NATIONAL INTEREST

Senator **Tower**. Well, first, Senator, I think that we should note that we are not in Western Europe for any altruistic reasons. We are there not just to defend the blue-eyed Europeans. We are there because it is in our national interest to be there and because it is incumbent upon us to maintain our defense perimeter as far from our own shores and as close to the adversary as possible.

I think we must think in terms of the consequences of the neutralization of Europe or the Finlandization of Europe. That would not be in the best interest of the United States. Certainly not in our best economic interests if nothing else to say little of all the other reasons.

Now, in fact, the Western Europeans will cite the fact that they had more real growth in their defense budget during the decade of the seventies than we did. They will also cite the fact that they have a draft, conscription, and we do not; and that they are making some other contributions we are not making.

Now, I think it is appropriate for us to warn the Europeans that the American public will not support an American presence in Western Europe if it is perceived that they are not doing what they should with their own defense and, further I would add not permitting us to deploy the weapons that are necessary to defend them and to defend our own presence there. I think they should be warned of this.

But I think that if we unilaterally, on our own, in a thick of peak, withdraw a substantial number of troops from Western Europe, there would be dancing in the streets in Moscow because that is precisely what the Soviet Union would like to see. They would like to see the dissolution of the Atlantic Alliance. Therefore, they could, without ever firing a shot, politically, perhaps pick off the weaker nations of Western Europe one at a time. It is in our interest to maintain that presence.

Senator **Gorton**. The second subject that you were, of course, a leader in seeing to it that military pay became more comparable and more designed to retain skilled military personnel and to attract recruits to our armed services on a volunteer basis of a higher average quality than was the case for a number of years in the past.

In that respect, in your testimony, you criticize the proposals for a military pay freeze as derrogating from that goal. Yet, I think as we observe the condition of the economy in the United States today, it would be safe to say that few, if any, in the civilian sector will, in fact, be receiving pay raises during the course of this year even if their hourly wages go up, average work week has gone down. Assuming the fact of a recession, which is even in a recovery period, in the impact of the balance of this year, and assuming that the real civilian pay does not rise, would not a freeze in military pay simply retain the present status quo and not have any negative effect either on recruitment or on retention?

PAY FREEZE WOULD AFFECT RETENTION

Senator TOWER. If you froze military pay or only permitted a less than inflationary increase in military pay, I think it would have an adverse effect on retention, particularly in the specialized grade. For example, we spend a lot of money training a man to be an electrician or an electronics expert, and even in a period of recession, these highly skilled people are still in demand in the private sector. There are a lot of these highly skilled and trained NCO's that can today, even in a recessionary period, walk out and get employment in the private sector. Indeed, many of them do so. We have to look at that aspect of it, and, two, let me point out that the last two pay increases came largely as a result of Congressional initiative, that this was our initiative because we created the All Volunteer Force by abandoning the draft in 1972 or 1973, and then we sort of walked away from it. We neglected it and I think we must confess our own dereliction. Now, if we are going to make it work, we have to pay the price.

I would point out that we were playing catch-up and trying to meet a terrible retention problem. We were really going downhill rapidly, and right now we are enjoying a great degree of success, both in recruits and in retention. I would not want to jeopardize that because that impacts on readiness. You may have to pay a higher price if you fail to do it by trying to compensate for these people that you fail to retain. I think it is risky business.

I think you are playing Russian roulette with the retention and accession problem if, indeed, you did not even grant an inflationary increase. We do not expect that the pay increase this year will be comparable to what it has been in previous years, but we certainly do not want to lose the momentum that we have right now. You figure training costs are very high for skilled people. If you lose those, what you have saved in not paying them an adequate amount, you may be spending in training costs.

Senator GORTON. One final question, which relates to a certain degree to your own written testimony and an answer which you provided to Senator Exon, has to do with your criticism of dealing with the defense budget simply in the abstract fashion of percentage of real increase, and while I think that there is a great deal of force in that argument, is it not true that both during the political campaign in 1980 and as recently as last spring, the defense increases and defense debate was presented on exactly that level, and is it not true that the administration last year called for real increases in defense of approximately 7 percent per year over a period of years, a percentage which is now considerably lower than this budget includes?

CALCULATE REQUIREMENTS

Senator TOWER. Well, I have never suggested that a percentage, a targeted percentage was an end unto itself. It is not. We must calculate what our requirements are and the percentages fall where they will. That is to say, a percentage does not necessarily enable you to fulfill your requirements. You could target too high a percentage even and your requirements would fall below that targeted percentage. But percentages should not be regarded as sacrosanct, and you are correct, a lot of the debate is centered around percentages and our admonitions to our allies have been on a percentage basis. I think we ought to get away from the percentage of business and say let us calculate our requirements first.

The percentage is driven by the calculation of your requirements. It is not just an arbitrary figure that you pick out of the air and say that is going to get us there.

Senator **GORTON**. Thank you.

Thank you, Madam Chairman.

OPENING STATEMENT OF SENATOR KASSEBAUM

Senator **KASSEBAUM** [presiding]. Thank you.

Senator Tower, we have done battle over some of the defense issues in the Budget Committee before, and I greatly respect the dedication and the perseverance and the understanding that you have brought to defense issues for sometime. I also strongly support a sound and prudent defense system. How we arrive at that at this particular point, is what is troubling all of us in light of the budget decisions and problems that we face.

I am troubled that over the last decade, we have failed, because of Vietnam, to do what should have been done in planning, research and development, and in prioritizing of defense needs. Now, however, we have gone overboard in trying to solve all of our problems in a cornucopia of goodies for the Pentagon. I do not think this necessarily provides us with a sound defense. Yet, I do not have the technical expertise to make those judgments, and I certainly can concede that. There are, however, many who are experts and are troubled. They want to see us maintain and improve our defense system, yet they are bothered by the different requirements of the armed services as they contend for budget considerations.

I believe that as we look at this particular defense budget in the light of our economic problems, we have to begin to make some decisions with regard to priorities.

UNOBLIGATED BALANCE

I have several questions. One, I would particularly like to ask, because I do not understand it and I think it is an important aspect of the defense budget, is the unobligated balance which from 1982 into 1983 is $33.8 billion. Now, that is 16 percent of the total defense budget of $221.1 billion which has been requested. It is also a doubling of the unobligated balance that was carried from 1980 to 1981, and for 1983 into 1984, it is projected to be $43 billion. In years past we had some discussion about unobligated balances. If we needed to have that large an unobligated balance I would like to hear your explanation of the need.

Senator **TOWER**. First, let me say, Senator, that we on the committee share some of your concerns. As a matter of fact, we may even be concerned more about a programmatic mentality and gold plating than you are, because we are closer to the problem. And I think perhaps there has been a tendency to think in programmatic terms over past years. But I think that now there is a tendency to place more emphasis on roles and missions, what roles and missions must be performed and what is required to perform that, regardless of what the prejudicial disposition of some admiral or general might be toward a specific system.

Even in the Armed Services Committee we reorganized in our committee last year, not along programmatic lines but along roles and missions lines. That is the way our subcommittees are organized. They cut across the services so that we do not get an Army, Navy, Air Force kind of compartmentalized mentality which we have to avoid. We are concerned about growing costs. In terms of unobligated authority, it has to be there, in my view, if we are to have the potential for the capital investments in the defense base that is required to bring stability and predictability into defense acquisition.

Now, the fact is that we do not have as much competition as we would like to have simply because there may not be available contractors out there to compete, or because those—some of them that are out there have decided that Uncle Sam is not a very good customer and, therefore, does not want to bid on Government contracts. In some instances, we have underutilized industrial capabilities. In other instances, we have an inadequate industrial base to do the job.

So what is dictated is that we use our funds in a well managed way to make sure that we are making the most efficient utilization of that underutilized capacity through higher production rates perhaps and, therefore, cheaper unit costs and, on the other hand, try to stimulate the broadening of the industrial base where we do suffer deficiencies.

ALLOWING FOR COST OVERRUNS

Senator **Kassebaum**. So you are allowing for cost overruns and so forth. I know the Armed Services Committee has tried to bring this under control and yet, as I say, this is a doubling since 1980 of the unobligated balance.

Senator **Tower**. Well, in prior years, your procurement was lower so your unobligated balances were lower, but procurement has gone up in 1981–82 and 1983. So that means that your unobligated balances will be higher. But I think they are necessary.

Senator **Kassebaum**. I certainly agree with you on the pay and I was very supportive of increased pay because we were losing the professional noncommissioned——

Senator **Tower**. At a very rapid rate.

Senator **Kassebaum** [continuing]. Personnel that we needed to maintain.

I think also, as you have pointed out, we can carry this on if we are putting $200 and some billion into a defense program. Do we even have the commitment and dedication that is necessary if we fully utilize this money for highly technical and sensitive programs, yet are not willing to make a commitment to even think of returning to a draft. We are putting all of our eggs in one basket, it seems to me, and this is, I think, the debate that should be carried to the public.

NEEDS OF STRONG DEFENSE SYSTEM

What do we really need or require to give us a sound strong defense system?

Senator **TOWER**. Right now the volunteer concept is working better than even I would have predicted a year ago. Last year's accession was good, last year's retention was good. The question is how long will it continue and will we always be able to meet our manpower and reserve requirements absent a draft? I happen to be somewhat pessimistic on that score, and I think that the probability is that if we are going to meet those requirements, at some point in time we will have to return to the draft. I would suggest, however, Senator, that the political climate is not favorable to it right now. I doubt that we would get a draft bill through the Congress right now.

Senator **KASSEBAUM**. You have mentioned three options for reduction if we were going to consider this in the budget, either for structure or readiness or modernization.

Were you indicating, as I believe perhaps in a speech over the weekend you seemed to indicate, that force reduction would be the option that you would feel would be wisest?

Senator **TOWER**. If force to make significant reductions—let me say at this point that we expect in the Armed Services Committee, I think I could identify about $2 billion in outlays that we could make. Now, I have not discussed this as Senator Exon knows. This has not been discussed in the committee yet, but we will be trying to identify these areas. I personally am not speaking for the committee, have identified at least $2 billion that we could make in savings and outlays. But I think that we have to have some degree of flexibility and keep the mark relatively high. If we are forced to make significant cuts, I think force structure would be where we would make cuts because, otherwise, you are going to be preserving a larger force structure than you could support with operation maintenance funds and with modernization.

General Meyer talked about a hollow Army not too long ago, and that is why we are dedicating a lot to our Army interests. The military has universally agreed on this; the DOD has agreed on it. And I think in terms of those who follow defense, both Democrats and Republicans have sort of agreed on that, so it is not a partisan issue. But it seems to me that is where we should make the reductions; and in that regard your manpower spendout is about 97 percent and O. & M. about 80 percent. Obviously, if you are looking for immediate outlay reductions, the quickest way to get at them is through force structure reduction.

Incidently, we are not going to close Fort Riley.

Senator **KASSEBAUM**. Even though you might threaten to. I would not want to test you.

NOT CONCEDING SUPERIORITY TO THE SOVIET UNION

I would just like to close by saying that I really do not agree with you, that being critical of the defense budget and supporting necessary reevaluations of our priorities will concede superiority to the Soviet Union. I do not believe that. I think we have had to improve our defense systems. There is still large room for improvement, but I think we have a healthy system.

Senator **Tower**. Senator, I would have to say if you look at the projections, if you look at the threat briefly, I do not see how you could come to any other conclusions that substantial reductions could concede superiority to the Soviet Union. Unless you tried to save money this year and go to a crash program 2 or 3 years hence, and that would really cost money if you tried to string out production or delay programs. Then what you are going to end up doing, if they are validated military requirements, is spending a lot more money later on.

What we would be in the business of doing if we were forced to get into force structure or any other kinds of cuts, is really having to pick and choose between validated military requirements. Let me point out the Soviets do not do that. Has their strategic buildup been at the expense of their conventional forces; ground force improvements at the expense of their Navy? No. The Soviets determine what their requirements are, and they fund them. And the Soviets are willing to impose enormous hardship on their people, make them suffer great privation, not just for the ability to defend themselves. They have far more than that, but for the ability to project Soviet power all over the world, for the ability to give the Soviet Union offensive capability.

If we are not willing to make some minimal sacrifice, that still does not lower the standards of the living of our people, but maybe deny us some Government services, if we are not willing to do that, just to have enough to defend ourselves and deter the Soviet Union, then I think in the final analysis they will be the dominant power in the world.

Senator **Kassebaum**. Thank you.

Chairman **Domenici**. Senator Tower, I think Senator Exon would have a few more questions. I hope, if I have to leave, that you will understand. I am 15 minutes late for markup. I have to switch hats and work on the Clean Air Act.

Senator **Tower**. I feel flattered that you spent this much time here, Mr. Chairman, knowing that you have heard me speak many times before. I know it is a trying experience for you, and I am glad that you have an excuse to get away.

Chairman **Domenici**. Senator Tower, Senator Symms has a rather lengthy question. I will submit it to you, and I would appreciate it if you, at your convenience, would answer it.

Senator **Tower**. I will be glad to answer it for the record.

WRITTEN QUESTION OF SENATOR SYMMS FOR SENATOR TOWER AND THE RESPONSE

Senator Tower, before I ask you a basic question on how to go about sizing the American defense budget, I want to provide some background information. The Soviet Military threat to our Nation is now totally unprecedented.

First, according to the Baltimore Sun of March 11, 1982, the Defense Department has recently concluded a study confirming that the Soviets will maintain their overall strategic superiority through 1990. This means that the United States may never be able to reattain strategic nuclear parity with the Soviets. We may be under the Soviet jack boot forever.

Second, Marshal Ogarkov, Chief of the Soviet General Staff, has proposed that the Soviet people be fully mobilized for war. A top Defense official has confirmed this as accurate. The Soviets are on a "war footing." This is a extreme sign of critical danger to the United States because since 1960 the entire Soviet economy has already been operating on a near wartime basis producing armaments.

Third, there is already a gap of between $645 and $710 billion between United States and Soviet defense expenditures since 1969. Thus we are way behind the Russians in defense expenditures and overall military power.

Fourth, even with the proposed Reagan defense buildup over the next five years, there are reliable reports that our planned military forces are still under-funded by $750 billion over the next 5 years. The Defense Department has reportedly testified that with a sustained annual increase in defense spending of 14 percent, it will take the United States until the mid 1990's to catch up to the Soviets in defense spending. The Fiscal Year 1983 Defense request is only a 13.5-percent increase, and is unlikely to be sustained. And there are also reliable reports that even after our forces are enhanced, they may still have trouble defending our vital national security interests and executing our national strategy.

Fifth, there are good reasons to believe that the Soviet military and strategic nuclear offensive threat from Cuba is greater now than it was during the Cuban Missile Crisis of 1962. There are reports of Soviet heavy bombers, strategic submarines and fighter-bombers capable of nuclear delivery already present in Cuba in violation of the Kennedy-Khrushchev Agreement of 1962.

Finally, recently Soviet President Brezhnev openly threatened nuclear blackmail to try to force the United States to freeze our strategic nuclear forces into vulnerability and parity. Soviet sources reportedly revealed that Brezhnev was threatening to openly branish Soviet strategic nuclear forces already in Cuba to force the U.S. into submitting to a highly disadvantageous nuclear weapons freeze.

MAGNITUDE OF SOVIET THREAT

My question to you, Senator Tower, relates to the unprecedented magnitude of the Soviet threat. Can the Senate continue to allow uncontrolled social spending entitlement programs to prevent us from our fundamental obligation to defend America from the ever more formidable Soviet threat? Can our defense needs really be budgeted, or are they an independent variable?

Answer. I continue to believe that our ability to meet foreign policy and national security commitments, and to fulfill these commitments given the threats we face, constitutes the most rational basis for sizing our defense budget.

As indicated in my statement, I have concluded that the overall level of defense spending proposed by the President is fully justified given the nature of the threat and the many unfavorable trends in the military balance which have developed durig the last decade. Further, this proposed commitment is, in budgetary terms, well within historical norms and fully supportable in light of our total economic effort.

In my view, the President's commitment to increase defense spending is part of broader and more important efforts to reestablish America's role as a world power and to reorder our domestic priorities; strengthening those areas that are the exclusive responsibility of the federal government and reducing the role of the federal government in those areas not mandated by the Constitution.

Chairman Domenici. Senator Hatch had some prepared remarks expressing his views. I would like to make them a part of the record at this point as if stated.

STATEMENT OF SENATOR HATCH

Mr. Chairman, the Budget process is now at an important crossroads in its short history. We must make the system work this year if it is to survive. The centerpiece of this budget is the amount spent on defense, a total of $253 billion. In terms of dollars it represents the largest defense budget in our history. It deserves our careful scrunity.

Senator Tower, our fellow committee member, also serves as the Chairman of the Armed Services Committee. As such he is charged with oversight of our nation's national security effort. I commend him for his efforts, for he has done yeoman-like work.

ACTION MUST BE TAKEN TO ADDRESS THREAT

The Soviet Union now poses a greater threat to the security and freedom of the American people than any other nation in our history. The military build-up which has continued unabated now constitutes the largest standing military force, both conventional and strategic, that man has ever witnessed. As the testimony of Senator Tower, and Secretary of Defense Weinberger before him, has so amply stated, we must take action to address this threat.

For over a decade now we have permitted our levels of defense spending to decline. As in all instances when something is permitted to fall into a state of disrepair or unreadiness, the cost of restoring our military to its desired level of strength and readiness will not be cheap. This Administration has recognized this fact and will not shrink from its duty.

I am speaking of a constitutionally mandated duty to provide for the national defense. In his report to the Congress, Secretary Weinberger outlines the program this Administration will pursue:

"First, we need to make more realistic the manner in which our forces respond to warning.

"Second, we have to increase substantially programs to improve the steady-state of readiness of our forces.

"Third, we have to enhance our preparations for military mobilization—that is, the arrangements and prior training needed quickly to mobilize, assemble, and deploy our forces.

"Fourth, we have to repair the national capacity to expand defense production during a crisis."

This policy, coupled with increased procurement levels will make a giant step in the readiness of our forces.

DEFENSE MISSION UNLIKE ANY OTHER

Mr. Chairman, this is not to say that we must treat the defense budget as a sacrosanct item. On the contrary, we must ensure that each program is conducted with a maximum of efficiency. In any organization as large as the Department of Defense there will be instances of waste, and in fact, of corruption. Just as we condemn other government agencies for the inefficiencies we must hold Defense responsible for its actions. But we must always remember the mission of defense is unlike any other. Should they fail, then all other issues will become moot points.

The problems we face were reaffirmed this week. Soviet President Leonid Brezhnev called on the U.S. and its NATO allies to abandon plans to modernize its Theater Nuclear Force. For this action we will receive a major concession. The Soviets will no longer deploy SS-20 missiles west of the Ural Mountains. It matters not that they currently have 300 such missiles, each with 3 warheads. Mr. Brezhnev also seems to have glossed over the fact that not only are these missiles capable of targeting Western Europe from a position east of the Urals, but they are mobile and can be moved into position if that is required. His call for disarmament is hollow, meant only for the ears of those who want to hear the words of disarmament from any voice. They seem to care not about actions. We as representatives of the American people must look beyond words and judge only by actions.

Mr. Chairman, I commend Senator Tower for his testimony. I hope he will be so kind as to respond to a few questions.

Chairman **Domenici**. I would just take a couple of minutes of your time.

First, Senator Tower, again I thank you for your presentation and your analysis. I am also pleased that you are cognizant of the budget squeeze that we are in and the economic problems that we have and that you have for yourself, I understand, not for the Armed Services Committee, indicated that you think you are aware of at least $2 billion worth of outlay savings that can be achieved in 1983. I am hopeful that you will share with us, as we go through the markup here, what that is in budget authority and how you arrived at it. And I am sure you will.

Senator **Tower**. Mr. Chairman, at that point, may I say that we intend to go to markup in about a week. And by the time of the Easter recess, we will know by then precisely what we feel we can achieve in savings. And that will, of course, be available to the committee.

REDUCTIONS IN DEFENSE BUDGET GRAVE ERROR

Chairman **Domenici**. Your opening paragraph where you indicate you have been led to the conclusion that it is a grave error to make significant near- and long-term reductions in the defense budget. I can tell you that I do not have any disagreement with that statement as chairman of this committee. I think probably if there is a difference, it would center around what is significant. The size budget that we are considering.

Senator **Tower**. That is right.

Chairman **Domenici**. Just as you have presented eloquently the risk of American lack of military preparedness resources and stated your position as chairman of that distinguished committee called Armed Services, I would just like to take 2 minutes and tell you, as chairman of this committee, what I see as my role.

First, I think it is absolutely accurate to say that America cannot live up to its social responsibility here at home unless we have a vibrant growing economy. Certainly we could never do that with the economy as it is now. I tend to think we could not do it with an economy growing at 1 or 1½ percent a year. I do not believe that we can politically or economically maintain the kind of defense posture that this country must maintain with an economy that is crippled or growing very, very slowly.

I have concluded, and I hope to convince this committee almost en masse, that we must get interest rates down substantially, and that our role in doing that is to get the projected deficits down substantially. I have not heard my good friend from Texas ever disagree with that.

Senator **Tower**. I agree with that.

TWO VERY SERIOUS RISKS

Chairman **Domenici**. Now, it seems therefore to this Senator that there are two very, very serious risks. The risk that you have eloquently outlined and the risk that we will choose the wrong fiscal path and monetary path and not be able to project with some degree of certainty, sustained growth for this very fantastic American economic system.

So it appears to me that I have to try to here address both risks as best I can. The risk that you have described and the risk, the economic risk that I have just described.

So I want to let you know in your capacity as a chief spokesman for one of those risks—and it is a risk we have paramount responsibility for, the risk that you described, the concern of Soviet power—that I do not intend to support significant cuts in the military, be it your notion of significance or mine, unless there is a package proposal that dramatically reduces the size of the nondefense domestic budget and produces changes in the revenue base of this country where that deficit is dramatically reduced.

Now, I would hope that those who assess both risks, the one that you were describing and the one that concerns you and I as Americans about our economy, will be able to come to grips with a package of reductions and tax changes that would correctly guard against each risk. I hope in doing it that we place the risk we confront regarding defense and adequate military preparedness in the right perspective so that it does not conflict with or counteract an essential economic recovery. I think it is a balancing act and tough.

I am going to try my best, and we are going to look forward to people like you and your committee giving us advice, and we do not intend to interfere in the role that you described, that is yours and your committee's. But I know from past experience that this committee, in order to do its job, has an assignment much like the one that I have just described. There can be differences of opinion as to whether we should begin to dramatically cut that deficit. There can be differences as to how, but if we do agree by a broad consensus that that is the goal, then I think we only have three or four things to look at: the entitlement programs, the discretionary programs, the taxes, and the defense budget.

I think I have expressed to you on a number of occasions, and I hope I have today, that I put that risk that we are in because of many years of neglect of the defense preparedness function of this Government, I hope you believe that I consider that very high priority as we try to assemble this package.

Senator **Tower**. Mr. Chairman, I understand that and I appreciate it.

IDENTIFY WHERE GROWTH OCCURS

One thing I think we have to consider is the fact that most of your nondefense spending goes into consumption; that over a third of every defense dollar that is spent is returned to the Treasury because it goes to employ people and the corporations who pay taxes. Also defense is a very big employer in this country at a time of high unemployment, although we do not maintain a defense establishment for that purpose. I would point out further that you have to get a handle on those things that have grown the most over the past years. In the last 21 years, defense has grown in real terms by 12 percent; nondefense spending has grown over 200 percent. So we have to identify where the growth occurs.

If you cut enough out of defense to balance the budget, you would just be pushing the problem ahead. Because these other programs would continue to grow.

I would further say we must think of the economic implications of the United States being internationally weak. The British had an axiom, trade follows the flag. The American presence, the American ability to protect people all over the world is in our economic interest. If individual nations that produce fiber and raw materials for us, such as energy, make their individual accommodations to the Soviet Union because we are perceived as being militarily weak, it is not going to provide a very good outlook for the health of the American economy in the future.

Chairman **Domenici**. Senator, do you support General Jones' current statement with reference to reorganizing the Joint Chiefs of Staff organization.

Senator **Tower**. We are examining General Jones' proposal. I think I agree with the thrust of it.

I would want to examine it more in detail and see what the implications are before I signed off on it. We may have our own version in the Armed Services Committee.

Chairman **Domenici**. My last question, Senator.

MAGNITUDE OF THREAT NOT UNDERSTOOD BY AMERICANS

You have seen the most recent briefings on Soviet military preparedness activities, classified.

Are you concerned that the American people may not understand the dimensions of it?

Senator **Tower**. I am concerned that they may not. Even though every poll indicates there is a high level of support for defense outlay, the public still does not fully understand the magnitude of the threat because most of what we see is classified.

Incidentally, in that connection, I have urged the administration to declassify whatever they can so that we can give the American people a broader picture, a more indepth picture, of the nature of the threat.

Chairman **Domenici**. I thank you very much, Senator Tower.

Senator Exon.

Senator **Exon**. Chairman Tower, I would like to associate myself with the remarks about the budget that have been made by the chairman of this committee. I certainly agree, and I think you do, that the deficits that have been presented to us are totally unacceptable; that the interest rate is never going to come down, and we are never going to get this country back on economic recovery unless we can have some kinds of a package of reductions here. And I would suggest to you, and I think you would agree, that as a part of that package we are going to have to do something on the defense budget. But I would emphasize once again, as you have so very well today, that if we think we can cut back the military costs, if we think we can cut back our readiness, we do that at our own peril, it seems to me, without looking at some of the other areas.

I was puzzled by what must be a misquote or possible misinterpretation in the article in the Post this morning on the Committee for the Present Danger, when they say, "The assessment appears in a report by the Committee on the Present Danger that claims that the President's $1.6 trillion, 5-year defense plan is still $100 billion too low"——

Now, $1.6 trillion, I cannot see how anybody is expert enough to say that is $100 billion too low or $100 billion too high.

Can you?

SOME THINK DEFENSE SPENDING TOO LOW

Senator **Tower**. Without going to the efficacy on the accuracy of the report, what I was merely pointing out is that there are some who think we are not spending enough on defense. A great deal of publicity has been given to those who think that we are, but there are some men of attainment who believe that we are not spending enough. So the President has really come in below the figure that some think is actually required.

If you look at the participants in that, Herb Stein, Bill Van-Cleave, Charls Walker, these are very respected men.

Senator **Exon**. As we look to some changes that might have to be made in the defense budget, and I would emphasize once again if anyone thinks we can make substantial dollar reductions in the multibillions of dollars from the defense budget for 1983, then I think they do not understand the threat that you and I do.

I am also concerned, as I am sure you are, Mr. Chairman, with what I perceive to be a general weakening of the once high support for spending whatever we needed for defense. I think that that has softened somewhat in the country under the economic troubles that we have now.

In that regard, I want to get back, if I can, to your perception of how efficiently we are planning to spend our money for defense. Now, as a recognized military expert, do you have any other misgivings, and I underline any other misgivings, about the administration's overall defense planning posture other than your often stated and repeated statements here again this morning, that you do not think that the MPS basing mode decision was a good one. Are there any other areas that you think we should take a look at, either as Armed Services Committee or members of the Senate as a whole?

ADMINISTRATION'S FUNDAMENTAL THRUST IS CORRECT

Senator TOWER. Well, Senator, I agree with the fundamental thrust of what the Administration is trying to do. I agree in detail, I would say, 90 percent if you could quantify it that way.

I remember when I was a lad in the Navy, stationed in Boston, I used to frequent a coffee shop that specialized in doughnuts. There was an inscription over the door that said "As you travel on through life, brother, whatever be your goal, keep your eye upon the doughnut and not upon the hole."

I prefer to zero in on the doughnut. I support the administration fundamentally and basically, and I think most of what they are doing is correct. And I think their long-range planning is correct. I think what they are doing is trying to achieve efficiencies, not only in defense production and acquisition, but efficiencies in terms of getting from concept to initial operating capability, shortening the time, not having so many people in green eyeshades around that string out the process and make things cost more and prevent them from getting them in the air or at sea a little faster. But I could identify some areas.

I think probably the most prominent, other than MX basing mode, would be the concept of the Rapid Deployment Joint Task Force.

I think that the Marine Corps traditionally has been our rapid deployment force. I am not sure that we can make a rapid deployment force out of what is actually an expeditionary force, and so I do have some questions in that regard. I would say that would be the major area in which I would have questions in addition to MX basing mode.

Senator EXON. I am trying to focus on the——

Senator TOWER. Of course, these are things that we are going to be hashing out in our committee at some length.

Senator EXON. I am trying to focus on the doughnut also, but I think we should not overlook maybe the black hole in the center.

Senator **TOWER**. I do not either, Senator. We will do that in our committee.

Senator **EXON**. Now, let me ask two more questions. You have been very patient. You have given excellent testimony.

While this is not a line item committee, I worried as much as you do, as well stated in your testimony, Chairman Tower. Across-the-board percentage reductions do not explain how or where the cuts should be taken, and we are going to go into this in the committee.

LARGEST PROCUREMENT PROGRAMS SHOULD STAY

Can you give us any preview now as to any of the areas of priority of spending that you think would do the least cause or harm, least harm to our overall defense posture, assuming, as I think you and I do, that we are not going to make any significant reductions in 1983? And if we are not going to go into the force structure, and if we are not going to go into readiness and preparedness or conventional forces, then the only way I think we can make any significant savings, whether we are good or not in the out-years, are in some of the procurement programs.

Take three of the largest procurement programs in the out-years, do you think that all three, the MX, the B-1B and the two new carriers that are programed must and should stay in the budget as presently presented to us?

Senator **TOWER**. I believe they are, Senator. That is my view. And we will see whether or not the committee sustains that view. I might say that, too often, in the press treatment of these programs you hear everything that is wrong with the program and not enough that is right about it. The M-1 tank, for example, that is the only thing that we have that will stay on the battlefield with the T-72.

Senator **EXON**. The Army helicopter?

Senator **TOWER**. The Army helicopter. It is a good bird, and it is the only thing that will bang in with the Russians. This is a good proqram. And if you do not fund those programs, you have to have something to replace them—the old stuff is going to wear out—maybe with obsolete equipment, that would be terrible judgment, in my view. But if you took the most controversial programs, the AH-64, the Patriot, the M-1, the F-15, F-18, the Trident II, the B-1, and the MX, if you zapped all these from the budget, you would save $24 billion in budget authority but you would save only $3.6 billion in outlays in 1983.

Senator **EXON**. Is there any possibility, Mr. Chairman, that we should explore?

Senator **TOWER**. By the way, to answer further your question, I did try to outline the priorities in my statement, and I did suggest that if we have to take severe cuts, force structure is the best way to go. And I think, fortunately, the military agrees with it.

DO NOT ABANDON LAND-BASED FORCES

Senator **EXON**. To be specific, do you think there is any sound rationale for exploring the possibility, at least, of substituting the Trident missiles for the MX missile?

Senator TOWER. I think that you might consider that sometime down the pike. And once you have gotten your command control, communications problem licked. But, as you well know, the submarine loses one of its most valuable assets, and that is his stealth, when he has to communicate, because he has to make himself identifiable when he does that.

I do not want to get into that any more than we should in an open session like this. But I think eventually with the D-5 missile, you might get to the point where that would be a reliable, urgent, survivable hard target kill capability. However, I still would not want to abandon our land-based forces because, as you well know, the mix and the numbers complicate the Soviet problem enormously. You do not want to make his problem any simpler than it is now. Indeed, you want to complicate his problem as much as possible.

Senator EXON. I would agree with that. I was not talking about abandoning the land base of the Trident. I was talking about the possibility of using the Trident missile on land as well as on submarines.

Senator TOWER. You are not talking about using the D-5 missile on land?

Senator EXON. Yes.

Senator TOWER. I would still support the MX because it gives you more capability than the D-5 does: more warheads, accuracy and, too, it is not a system that relies on a system as does the sea-based deterrent. If the missile is down, the sub is down. That is what is wrong with this proposed continuous control aircraft. If that bird is down, your missile is down. If the airfield is destroyed, you might not have gotten him off the ground.

Senator EXON. One last question, Mr. Chairman.

With regard to maintaining——

Senator TOWER. Incidently, another added factor to that is the potential problem of trying to make the D-5 all things to all people and make it perform both a submarine launch and land-base role. Eventually, this might not save you much in the way of costs; it might not have saved you any. We have not gotten into the cost profile so we do not know.

Senator EXON. That might be worth looking into though, would it not?

Senator TOWER. Oh, certainly.

DEFENSE IS EXCLUSIVE FUNCTION OF U.S. GOVERNMENT

Senator EXON. One last question, Mr. Chairman.

In looking forward to continuing to fund and making massive increases over past years, that I think you and I strongly support in the overall defense posture and spending of the U.S. Government, I was wondering if you had visited with the majority leader, Senator Baker, with regard to a proposal that he at least noted, maybe just as a trial balloon, rather recently regarding a surtax that might be earmarked for defense.

Do you think that has any merit?

Senator TOWER. I have not discussed that with Senator Baker, but I suggest if we are going to levy a surtax, it should be to fund those things which Government is not mandated to do.

I would point out that defense is an exclusive function of the Government of the United States. Many other things that National Government does, or can be done by State and local governments or private and charitable contributions, but if the Federal Government does not fund defense, there is no defense. If you took away—and I am not suggesting that you reduce Federal funding in education, but if there were no Federal funding in education, you would still have an educational system in this country maintained by State and local government. That is an example of what I mean. If we are going to get into these areas where the Constitution is not specific about what the Federal responsibility is, that is what we ought to talk about taxes to fund, not defense, and we should talk about taxes to fund those things that have grown in cost, as I pointed out awhile ago. Defense grew in real terms 12 percent over 21 years; nondefense spending over 200 percent. So let us levy that tax to fund those areas where Government spending grows the fastest, and which are not regarded as exclusive functions of the Federal Government.

Senator EXON. Mr. Chairman, thank you very much. Excellent testimony and good answers to the questions.

We are adjourned.

[Whereupon, at 10:36 a.m., the committee adjourned, subject to the call of the Chair.].

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Volume III to Follow